BANK OF NOVA SCOTIA /
Form 424B5
November 26, 2013

The information in this Preliminary Pricing Supplement is not complete and may be changed. We may not sell these Notes until the Pricing Supplement is delivered in final form. We are not selling these Notes, nor are we soliciting offers to buy these Notes, in any State where such offer or sale is not permitted.

PRELIMINARY PRICING SUPPLEMENT Subject to Completion Dated November [l], 2013	Filed Pursuant to Rule 424(b)(5) Registration No. 333-185049

Pricing Supplement dated [___] to the

Prospectus dated August 1, 2013

Prospectus Supplement and Product Prospectus Supplement (Equity Linked Index Notes, Series A) dated August 8, 2013

The Bank of Nova Scotia

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Capped Enhanced Participation Notes, Series A

Linked to the MSCI EAFE Index

Due

The notes will not bear interest. The amount that you will be paid on your notes at maturity is based on the performance of the MSCI EAFE Index (which we refer to as the reference asset) as measured from the trade date to and including the valuation date**. If the percentage change (defined below) of the reference asset is negative, you will lose a portion of your investment in the notes and may lose all or a substantial portion of your investment depending on the performance of the reference asset. Additionally, the amount you may receive for each $1,000 principal amount of your notes at maturity is subject to a maximum redemption amount (set on the trade date and expected to be between $1,280.00 and $1,320.00). Any payment on your notes is subject to the creditworthiness of The Bank of Nova Scotia.**

To determine your payment at maturity, we will first calculate the percentage increase or decrease in the final level (determined on the valuation date, subject to adjustment) from the initial level (which will be the closing level of the reference asset on the pricing date), which we refer to as the percentage change. The percentage change may reflect a positive return (based on any increase in the level of the reference asset over the life of the notes) or a negative return (based on any decrease in the level of the reference asset over the life of the notes). At maturity, for each $1,000 principal amount of your notes:

if the final level is *greater than* the initial level (the percentage change is *positive*), you will receive an amount in cash equal to the *sum* of (i) $1,000 *plus* (ii) the *product* of $1,000 *times* the percentage change, times the participation rate of 200%, subject to the maximum redemption amount; or

if the final level is less than or equal to the initial level (the percentage change is *negative or zero*), you will receive an amount in cash equal to the sum of: (1) $1,000 plus (2) the product of (i) $1,000 times (ii) the percentage change. You will receive an amount equal to or less than $1,000.

Following the determination of the initial level, the amount you will be paid on your notes at maturity will not be affected by the closing level of the reference asset on any day other than the valuation date. You could lose all or a substantial portion of your investment in the notes. Any percentage decrease between the initial level and the final level will reduce the payment you will receive at maturity below the principal amount of your notes. Further, the maximum payment that you could receive at maturity with respect to each $1,000 principal amount of your notes (the minimum denomination) is limited to the maximum redemption amount of between $1,280.00 and $1,320.00 (set on the trade date). In addition, the notes will not bear interest, and no other payments on your notes will be made prior to maturity.

The estimated value of your Notes on the trade date (as determined by reference to pricing models used by Goldman, Sachs & Co. (GS&Co.) and taking into account our credit spreads) is approximately $l per $1,000 face amount, which is less than the original issue price. The value of your Notes at any time will reflect many factors and cannot be predicted; however, the price (not including GS&Co.'s customary bid and ask spreads) at which GS&Co. would initially buy or sell Notes (if it makes a market, which it is not obligated to do) and the value that GS&Co. will initially use for account statements and otherwise equals approximately $l per $1,000 face amount, which exceeds the estimated value of your Notes as determined by reference to these models. The amount of the excess will decline on a straight line basis over the period from the trade date through l.

The Capped Enhanced Participation Notes, Series A Linked to the MSCI EAFE Index Due l (the "Notes") offered hereunder are unsecured obligations of The Bank of Nova Scotia (the "Bank") and are subject to investment risks including possible loss of the principal amount invested due to the negative performance of the reference asset and the credit risk of The Bank of Nova Scotia. As used in this pricing supplement, the "Bank," "we," "us" or "our" refers to The Bank of Nova Scotia.

The Notes will not be listed on any U.S. securities exchange or automated quotation system.

The return on your Notes will relate to the price return of the reference asset and will not include a total return or dividend component. The Notes are derivative products based on the performance of the reference asset. The Notes do not constitute a direct investment in any of the shares, units or other securities represented by the reference asset. By acquiring Notes, you will not have a direct economic or other interest in, claim or entitlement to, or any legal or beneficial ownership of any such share, unit or security and will not have any rights as a shareholder, unitholder or other security holder of any of the issuers including, without limitation, any voting rights or rights to receive dividends or other distributions.

Neither the United States Securities and Exchange Commission ("SEC"), Nor ANY state securities commission has approved or disapproved of the Notes or passed upon the accuracy or the adequacy of this document, the accompanying prospectus, prospectus supplement or product prospectus supplement. Any representation to the contrary is a criminal offense. THE NOTES ARE NOT INSURED by the Canada Deposit Insurance Corporation pursuant to the Canada Deposit Insurance Corporation Act OR THE U.S. FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY OF CANADA, THE UNITED STATES OR ANY OTHER JURISDICTION.

Scotia Capital (USA) Inc., our affiliate, will purchase the Notes from us for distribution to other registered broker dealers or will offer the Notes directly to investors. Scotia Capital (USA) Inc. or any of its affiliates or agents may use this pricing supplement in market-making transactions in Notes after their initial sale. Unless we, Scotia Capital

(USA) Inc. or another of its affiliates or agents selling such Notes to you informs you otherwise in the confirmation of sale, the final pricing supplement to which this pricing supplement relates is being used in a market-making transaction. See "Supplemental Plan of Distribution (Conflicts of Interest)" in this pricing supplement and "Supplemental Plan of Distribution" on page PS-30 of the accompanying product prospectus supplement.

	Per Note	Total
Price to public	100.00%	$
Underwriting commissions[1]	%	$
Proceeds to The Bank of Nova Scotia[2]	%	$

Investment in the Notes involves certain risks. You should refer to "Additional Risks" in this pricing supplement and "Additional Risk Factors Specific to the Notes" beginning on page PS-5 of the accompanying product prospectus supplement and "Risk Factors" beginning on page S-2 of the accompanying prospectus supplement and on page 6 of the accompanying prospectus.

We may decide to sell additional Notes after the date of this pricing supplement, at issue prices and with underwriting discounts and net proceeds that differ from the amounts set forth above. We will deliver the Notes in book-entry form through the facilities of The Depository Trust Company ("DTC") on or about l against payment in immediately available funds.

Scotia Capital (USA) Inc. Goldman, Sachs & Co.

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1 Scotia Capital (USA) Inc. or one of our affiliates will purchase the Notes at the Principal Amount and as part of the distribution of the Notes may pay varying discounts and underwriting commissions of up to $l per $1,000 Principal Amount of Notes in connection with the distribution of the Notes. Scotia Capital (USA) Inc. may also receive a structuring and development fee of up to $0.50 per $1,000 Principal Amount of Notes. See "Supplemental Plan of Distribution (Conflicts of Interest)" in this pricing supplement.

2 Excludes profits from hedging. For additional considerations relating to hedging activities see "Additional Risks—The Inclusion of Dealer Spread and Projected Profit from Hedging in the Original Issue Price is Likely to Adversely Affect Secondary Market Prices" in this pricing supplement.

The difference between the estimated value of your Notes and the original issue price reflects costs that the Bank or its affiliates expect to incur and profits that the Bank or its affiliates expect to realize in connection with hedging activities related to the Notes. These costs and profits will likely reduce the secondary market price, if any secondary market develops, for the Notes. As a result, you may experience an immediate and substantial decline in the market value of your Notes on the trade date and you may lose all or a substantial portion of your initial investment. The Bank's profit in relation to the Notes will vary based on the difference between (i) the amounts received by the Bank in connection with the issuance and the reinvestment return received by the Bank in connection with those funds and (ii) the costs incurred by the Bank in connection with the issuance of the Notes and the hedging transactions it enters into with its affiliates or Goldman, Sachs & Co. The Bank's affiliates and Goldman, Sachs & Co. will also realize a profit that will be based on the (i) cost of creating and maintaining the hedging transactions minus (ii) the payments received on the hedging transactions.

Summary

The information in this "Summary" section is qualified by the more detailed information set forth in this pricing supplement, the prospectus, the prospectus supplement, and the product prospectus supplement, each filed with the SEC. See "Additional Terms of Your Notes" in this pricing supplement.

Issuer:	The Bank of Nova Scotia (the "Bank")
CUSIP/ISIN:	CUSIP 064159338 / ISIN US 0641593381
Type of Notes:	Capped Enhanced Participation Notes, Series A
Reference Asset:	The MSCI EAFE Index (Bloomberg Ticker: MXEA)
Minimum Investment and Denominations:	$1,000 and integral multiples of $1,000 in excess thereof
Principal Amount:	$1,000 per Note
Original Issue Price:	100% of the Principal Amount of each Note
Currency:	U.S. Dollars
Pricing Date:	Expected to be l
Trade Date:	Expected to be l
Original Issue Date:	Expected to be l (to be determined on the Trade Date and expected to be the 5th scheduled Business Day after the Trade Date).
Maturity Date:	l (to be determined on the Trade Date and expected to be the 3rd scheduled Business Day after the Valuation Date), subject to adjustment as described in more detail in the accompanying product prospectus supplement.
Principal at Risk:	You may lose all or a substantial portion of your initial investment at maturity if there is any percentage decrease from the Initial Level to the Final Level.
Fees and Expenses:	Scotia Capital (USA) Inc. or one of our affiliates may pay varying discounts and underwriting commissions of up to $l per $1,000 Principal Amount of Notes in connection with the distribution of the Notes. The underwriting commission set forth on the cover page of this pricing supplement per $1,000 face amount is comprised of $l of underwriting fees and $l of selling commission, to be set on the Trade Date. Scotia Capital (USA) Inc. may also receive a structuring and development fee of up to $0.50 per $1,000 Principal Amount of Notes. The price at which you purchase the Notes includes costs that the Bank or its affiliates expect to incur and profits that the Bank or its affiliates expect to realize in connection with hedging activities related to the Notes, as set forth above. These costs and profits will likely reduce the secondary market price, if any secondary market develops, for the Notes. As a result, you may experience an immediate and substantial decline in the market value of your Notes on the Trade Date. See "Additional Risks—The Inclusion of Dealer Spread and Projected Profit from Hedging in the Original Issue Price is Likely to Adversely Affect Secondary Market Prices" in this pricing supplement.

Payment at Maturity: The Payment at Maturity will be based on the performance of the Reference Asset and will be calculated as follows:

If the Final Level is greater than the Initial Level, then the Payment at Maturity will equal:

The lesser of (a) the Principal Amount + (Principal Amount x Participation Rate x Percentage Change) or (b) the Maximum Redemption Amount

If the Final Level is less than or equal to the Initial Level, then the Payment at Maturity will equal:

Principal Amount + (Principal Amount x Percentage Change)

In this case you will suffer a loss on your initial investment in an amount equal to the negative Percentage Change. Accordingly, you could lose up to 100% of your initial investment.

Initial Level: To be determined on the Pricing Date and may be higher or lower than the actual closing level of the Reference Asset on the Pricing Date.

Final Level: The Final Level of the Reference Asset will be determined based upon the closing level published on the Bloomberg page “MXEA<Index>” or any successor page on Bloomberg or any successor service, as applicable, on the Valuation Date. In certain special circumstances, the final level will be determined by the Calculation Agent, in its discretion, and such determinations will, under certain circumstances, be confirmed by an independent calculation expert. See “General Terms of the Notes—Unavailability of the Level of the Reference Asset on a Valuation Date” and “General Terms of the Notes—Market Disruption Events” beginning on page PS-19 and “Appointment of Independent Calculation Experts” on page PS-22, in the accompanying product prospectus supplement.

Percentage Change: The Percentage Change, expressed as a percentage, with respect to the Payment at Maturity, is calculated as follows:

$$\frac{\text{Final Level} - \text{Initial Level}}{\text{Initial Level}}$$

For the avoidance of doubt, the Percentage Change may be a negative value.

Participation Rate: 200%

Maximum Redemption Amount: $1,280.00-$1,320.00, which equals Principal Amount x 128.00%-132.00% (The actual Maximum Redemption Amount to be determined on Trade Date). The Maximum Redemption Amount sets a cap on appreciation of the Reference Asset of 14.00%-16.00%

Valuation Date:	l (to be determined on the Trade Date and expected to be approximately 21-24 months after the Trade Date). The Valuation Date could be delayed by the occurrence of a market disruption event. See "General Terms of the Notes—Market Disruption Events" beginning on page PS-19 in the accompanying product prospectus supplement.
Form of Notes:	Book-entry
Calculation Agent:	Scotia Capital Inc., an affiliate of the Bank
Status:	The Notes will constitute direct, unsubordinated and unsecured obligations of the Bank ranking *pari passu* with all other direct, unsecured and unsubordinated indebtedness of the Bank from time to time outstanding (except as otherwise prescribed by law). Holders will not have the benefit of any insurance under the provisions of the *Canada Deposit Insurance Corporation Act*, the U.S. *Federal Deposit Insurance Act* or under any other deposit insurance regime.
Tax Redemption:	The Bank (or its successor) may redeem the Notes, in whole but not in part, at a redemption price determined by the Calculation Agent in a manner reasonably calculated to preserve your and our relative economic position, if it is determined that changes in tax laws or their interpretation will result in the Bank (or its successor) becoming obligated to pay additional amounts with respect to the Notes. See "Tax Redemption" below.
Listing:	The Notes will not be listed on any securities exchange or quotation system.
Use of Proceeds:	General corporate purposes
Clearance and Settlement:	Depository Trust Company
Business Day:	New York and Toronto
Terms Incorporated:	All of the terms appearing above the item under the caption "General Terms of the Notes" beginning on page PS-14 in the accompanying product prospectus supplement, as modified by this pricing supplement.

INVESTING IN THE NOTES INVOLVES SIGNIFICANT RISKS. YOU MAY LOSE YOUR ENTIRE PRINCIPAL AMOUNT. ANY PAYMENT ON THE NOTES, INCLUDING ANY REPAYMENT OF PRINCIPAL, IS SUBJECT TO THE CREDITWORTHINESS OF THE BANK. IF THE BANK WERE TO DEFAULT ON ITS PAYMENT OBLIGATIONS YOU MAY NOT RECEIVE ANY AMOUNTS OWED TO YOU UNDER THE NOTES AND YOU COULD LOSE YOUR ENTIRE INVESTMENT.

Additional Terms Of Your Notes

You should read this pricing supplement together with the prospectus dated August 1, 2013, as supplemented by the prospectus supplement dated August 8, 2013 and the product prospectus supplement (Equity Linked Index Notes, Series A) dated August 8, 2013, relating to our Senior Note Program, Series A, of which these Notes are a part. Capitalized terms used but not defined in this pricing supplement will have the meanings given to them in the product prospectus supplement. In the event of any conflict, this pricing supplement will control. ***The Notes may vary from the terms described in the accompanying product prospectus supplement in several important ways. You should read this pricing supplement carefully.***

This pricing supplement, together with the documents listed below, contains the terms of the Notes and supersedes all prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, brochures or other educational materials of ours. You should carefully consider, among other things, the matters set forth in "Additional Risk Factors Specific to the Notes" in the accompanying product prospectus supplement, as the Notes involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisors before you invest in the Notes. You may access these documents on the SEC website at www.sec.gov as follows (or if that address has changed, by reviewing our filings for the relevant date on the SEC website at

http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0000009631):

Prospectus dated August 1, 2013:

http://www.sec.gov/Archives/edgar/data/9631/000089109213006699/e54840_424b3.htm

Prospectus Supplement dated August 8, 2013:

http://www.sec.gov/Archives/edgar/data/9631/000089109213006938/e54968_424b3.htm

Product Prospectus Supplement (Equity Linked Index Notes, Series A), dated August 8, 2013

http://www.sec.gov/Archives/edgar/data/9631/000089109213006939/e54971_424b5.htm

The Bank of Nova Scotia has filed a registration statement (including a prospectus, a prospectus supplement, and a product prospectus supplement) with the SEC for the offering to which this pricing supplement relates. Before you invest, you should read those documents and the other documents relating to this offering that we have filed with the SEC for more complete information about us and this offering. You may obtain these documents without cost by visiting EDGAR on the SEC Website at www.sec.gov. Alternatively, The Bank of Nova Scotia, any agent or any dealer participating in this offering will arrange to send you the prospectus, the

prospectus supplement and the product prospectus supplement if you so request by calling 1-416-866-3672.

Investor Suitability

The Notes may be suitable for you if:

- You fully understand the risks inherent in an investment in the Notes, including the risk of losing your entire initial investment.
- You can tolerate a loss of up to 100% of your initial investment and are willing to make an investment that may have the downside market risk of an investment in the Reference Asset or in the Reference Asset constituent stocks.
- You believe that the Reference Asset will appreciate over the term of the Notes and that the appreciation is unlikely to exceed the cap on appreciation within the Maximum Redemption Amount (the actual Maximum Redemption Amount will be determined on the Trade Date).

- You are willing to hold the Notes to maturity, a term of approximately 21-24 months, and accept that there may be little or no secondary market for the Notes.
- You understand and accept that your potential return is limited to the Maximum Redemption Amount and you would be willing to invest in the Notes if the Maximum Redemption Amount was set equal to the bottom of the range indicated above (the actual Maximum Redemption Amount will be set on the Trade Date).
- You can tolerate fluctuations in the price of the Notes prior to maturity that may be similar to or exceed the downside fluctuations in the level of the Reference Asset.
- You do not seek current income from your investment.
- You are willing to assume the credit risk of the Bank for all payments under the Notes, and understand that if the Bank defaults on its obligations you may not receive any amounts due to you including any repayment of principal.

The Notes may not be suitable for you if:

- You do not fully understand the risks inherent in an investment in the Notes, including the risk of losing your entire initial investment.
- You require an investment designed to guarantee a full return of principal at maturity.
- You cannot tolerate a loss of all or a substantial portion of your initial investment and are not willing to make an investment that may have the downside market risk as an investment in the Reference Asset or in the Reference Asset constituent stocks.
- You believe that the level of the Reference Asset will decline during the term of the Notes and the Final Level will likely decline below the Initial Level, or you believe the Reference Asset will appreciate over the term of the Notes and that the appreciation is likely to equal or exceed the cap on appreciation within the Maximum Redemption Amount (the actual Maximum Redemption Amount will be determined on the Trade Date).
- You seek an investment that has unlimited return potential without a cap on appreciation and you would be unwilling to invest in the Notes if the Maximum Redemption Amount was set equal to the bottom of the range indicated above.
- You cannot tolerate fluctuations in the price of the Notes prior to maturity that may be similar to or exceed the downside fluctuations in the level of the Reference Asset.
- You seek current income from your investment or prefer to receive dividends paid on the stocks included in the Reference Asset.
- You are unwilling to hold the Notes to maturity, a term of approximately 21-24 months, or you seek an investment for which there will be a secondary market.
- You are not willing to assume the credit risk of the Bank for all payments under the Notes.

The investor suitability considerations identified above are not exhaustive. Whether or not the Notes are a suitable investment for you will depend on your individual circumstances and you should reach an investment decision only after you and your investment, legal, tax, accounting and other advisors have carefully considered the suitability of an investment in the Notes in light of your particular circumstances. You should also review ‘‘Additional Risks’’ in this preliminary pricing supplement and the ‘‘Additional Risk Factors Specific to the Notes’’ beginning on page PS-5 of the Product Prospectus Supplement for Equity Linked Index Notes, Series A for risks related to an investment in the Notes.

EVENTS OF DEFAULT AND ACCELERATION

If the Notes have become immediately due and payable following an event of default (as defined in the accompanying prospectus) with respect to the Notes, the Calculation Agent will determine the default amount as described below.

Default Amount

The default amount for your Notes on any day (except as provided in the last sentence under "Default Quotation Period" below) will be an amount, in the specified currency for the principal of your Notes, equal to the cost of having a qualified financial institution, of the kind and selected as described below, expressly assume all our payment and other obligations with respect to your Notes as of that day and as if no default or acceleration had occurred, or to undertake other obligations providing substantially equivalent economic value to you with respect to your Notes. That cost will equal:

- the lowest amount that a qualified financial institution would charge to effect this assumption or undertaking, plus
- the reasonable expenses, including reasonable attorneys' fees, incurred by the trustees of your Notes in preparing any documentation necessary for this assumption or undertaking.

During the default quotation period for your Notes, described below, the trustees and/or the Bank may request a qualified financial institution to provide a quotation of the amount it would charge to effect this assumption or undertaking. If either party obtains a quotation, it must notify the other party in writing of the quotation. The amount referred to in the first bullet point above will equal the lowest — or, if there is only one, the only — quotation obtained, and as to which notice is so given, during the default quotation period. With respect to any quotation, however, the party not obtaining the quotation may object, on reasonable and significant grounds, to the assumption or undertaking by the qualified financial institution providing the quotation and notify the other party in writing of those grounds within two business days after the last day of the default quotation period, in which case that quotation will be disregarded in determining the default amount.

Default Quotation Period

The default quotation period is the period beginning on the day the default amount first becomes due (the "due day") and ending on the third business day after that day, unless:

- no quotation of the kind referred to above is obtained, or
- every quotation of that kind obtained is objected to within five business days after the due day as described above.

If either of these two events occurs, the default quotation period will continue until the third business day after the first business day on which prompt notice of an objection is given as described above. If that quotation is objected to as described above within five business days after that first business day, however, the default quotation period will continue as described in the prior sentence and this sentence.

Qualified Financial Institutions

For the purpose of determining the default amount at any time, a qualified financial institution must be a financial institution organized under the laws of any jurisdiction in the United States of America, Europe or Japan, which at that time has outstanding debt obligations with a stated maturity of one year or less from the date of issue and that is, or whose securities are, rated either:

- A-1 or higher by Standard & Poor's Ratings Services, or any successor, or any other comparable rating then used by that rating agency, or
- P-1 or higher by Moody's Investors Service or any successor, or any other comparable rating then used by that rating agency.

If the Notes have become immediately due and payable following an event of default, you will not be entitled to any additional payments with respect to the Notes. For more information, see "Description of the Debt Securities We May Offer—Events of Default" beginning on page 21 of the accompanying prospectus.

Tax Redemption

The Bank (or its successor) may redeem the Notes, in whole but not in part, at a redemption price determined by the Calculation Agent in a manner reasonably calculated to preserve your and our relative economic position, upon the giving of a notice as described below, if:

- as a result of any change (including any announced prospective change) in or amendment to the laws (or any regulations or rulings promulgated thereunder) of Canada (or the jurisdiction of organization of the successor to the Bank) or of any political subdivision or taxing authority thereof or therein affecting taxation, or any change in official position regarding the application or interpretation of such laws, regulations or rulings (including a holding by a court of competent jurisdiction), which change or amendment is announced or becomes effective on or after the Pricing Date (or, in the case of a successor to the Bank, after the date of succession), and which in the written opinion to the Bank (or its successor) of legal counsel of recognized standing has resulted or will result (assuming, in the case of any announced prospective change, that such announced change will become effective as of the date specified in such announcement and in the form announced) in the Bank (or its successor) becoming obligated to pay, on the next succeeding date on which a payment is due, additional amounts with respect to the Notes; or

- on or after the Pricing Date (or, in the case of a successor to the Bank, after the date of succession), any action has been taken by any taxing authority of, or any decision has been rendered by a court of competent jurisdiction in, Canada (or the jurisdiction of organization of the successor to the Bank) or any political subdivision or taxing authority thereof or therein, including any of those actions specified in the paragraph immediately above, whether or not such action was taken or decision was rendered with respect to the Bank (or its successor), or any change, amendment, application or interpretation shall be officially proposed, which, in any such case, in the written opinion to the Bank (or its successor) of legal counsel of recognized standing, will result (assuming, that such change, amendment or action is applied to the Notes by the taxing authority and that, in the case of any announced prospective change, that such announced change will become effective as of the date specified in such announcement and in the form announced) in the Bank (or its successor) becoming obligated to pay, on the next succeeding date on which a payment is due, additional amounts with respect to the Notes;

and, in any such case, the Bank (or its successor), in its business judgment, determines that such obligation cannot be avoided by the use of reasonable measures available to it (or its successor).

The redemption price will be determined by the Calculation Agent, in its discretion, and such determination will, under certain circumstances, be confirmed by an independent calculation expert. See "Appointment of Independent Calculation Experts" on page PS-22, in the accompanying product prospectus supplement.

In the event the Bank elects to redeem the Notes pursuant to the provisions set forth in the preceding paragraph, it shall deliver to the trustees a certificate, signed by an authorized officer, stating that the Bank is entitled to redeem such Notes pursuant to their terms in whole only.

The Bank will give notice of intention to redeem such Notes to holders of the Notes not more than 45 nor less than 30 days prior to the date fixed for redemption specifying, among other things, the date fixed for redemption, and on or promptly after the redemption date, it will give notice of the redemption price.

Other than as described above, the Notes are not redeemable prior to their maturity.

Hypothetical Payments AT MATURITY On the Notes

The examples set out below are included for illustration purposes only. The hypothetical Percentage Changes of the Reference Asset used to illustrate the calculation of the Payment at Maturity (rounded to two decimal places) are not estimates or forecasts of the Initial Level, the Final Level or the level of the Reference Asset on the Valuation Date or on any Trading Day prior to the Maturity Date. All examples assume that a holder purchased Notes with an aggregate Principal Amount of $1,000.00, a Maximum Redemption Amount of $1,280.00 (128.00% of the Principal Amount) (the bottom of the Maximum Redemption Amount range of $1,280.00-$1,320.00 (128.00%-132.00% of the Principal Amount); the actual

Maximum Redemption Amount will be determined on Trade Date) and that no market disruption event occurs on the Valuation Date. Amounts below may have been rounded for ease of analysis.

Example 1—Calculation of the Payment at Maturity where the Percentage Change is positive.

Percentage Change: 5.00%

Payment at Maturity: $1,000.00 + ($1,000.00 x 200.00% x 5.00%) = $1,000.00 + $100.00 = $1,100.00

On a $1,000.00 investment, a 5.00% Percentage Change results in a Payment at Maturity of $1,100.00.

Example 2— Calculation of the Payment at Maturity where the Percentage Change is positive (and the Payment at Maturity is subject to the Maximum Redemption Amount).

Percentage Change:	50.00%
Payment at Maturity:	$1,000.00 + ($1,000.00 x 200.00% x 50.00%) = $1,000.00 + $1,000.00 = $2,000.00 however, the Maximum Redemption Amount is $1,280.00 and the Payment at Maturity would be $1,280.00.

On a $1,000.00 investment, a 50.00% Percentage Change results in a Payment at Maturity of $1,280.00.

Example 3—Calculation of the Payment at Maturity where the Percentage Change is negative

Percentage Change: -50.00%

Payment at Maturity: $1,000.00 + [$1000.00 x (-50.00%)] = $1,000.00 - $500.00 =$500.00

On a $1,000.00 investment, a -50.00% Percentage Change results in a Payment at Maturity of $500.00.

Accordingly, if the Percentage Change is negative, the Bank will pay you less than the full Principal Amount, resulting in a loss on your investment that is equal to the negative Percentage Change. You may lose up to 100% of your principal.

Any payment on the Notes, including any repayment of principal, is subject to the creditworthiness of the Bank. If the Bank were to default on its payment obligations, you may not receive any amounts owed to you under the Notes and you could lose your entire investment.

The following graph represents hypothetical returns only and is not indicative of actual results. The graph demonstrates the hypothetical return on the Notes at maturity for the set of Percentage Changes of the Reference Asset from -100.00% to 100.00% using the same assumptions as set forth above. Your investment may result in a complete loss of your principal at maturity.

ADDITIONAL RISKS

An investment in the Notes involves significant risks. In addition to the following risks included in this pricing supplement, we urge you to read "Additional Risk Factors Specific to the Notes" beginning on page PS-5 of the accompanying product prospectus supplement and "Risk Factors" beginning on page S-2 of the accompanying prospectus supplement and page 6 of the accompanying prospectus.

You should understand the risks of investing in the Notes and should reach an investment decision only after careful consideration, with your advisors, of the suitability of the Notes in light of your particular financial circumstances and the information set forth in this pricing supplement and the accompanying prospectus, prospectus supplement and product prospectus supplement.

The Estimated Value of Your Notes At the Time the Terms of Your Notes Are Set On the Trade Date (As Determined By Reference to Pricing Models Used By Goldman, Sachs & Co.) Will Be Less Than the Original Issue Price Of Your Notes

The original issue price for your notes exceeds the estimated value of your notes as of the time the terms of your notes were set on the trade date, as determined by reference to Goldman, Sachs & Co.'s (as "Dealer" of the Notes) pricing models and taking into account our credit spreads. Such estimated value on the trade date is set forth on the cover of this pricing supplement; after the trade date, the estimated value as determined by reference to these models will be affected by changes in market conditions, our creditworthiness and other relevant factors. The price at which Goldman, Sachs & Co. would initially buy or sell Notes (if Goldman, Sachs & Co. makes a market, which it is not obligated to do) and the value that Goldman, Sachs & Co. will initially use for account statements and otherwise, also exceeds the estimated value of your Notes, as determined by reference to these models. The amount of the excess will decline on a straight line basis over the period from the date hereof through . After , if Goldman, Sachs & Co. buys or sells your notes it will do so at prices that reflect the estimated value determined by reference to such pricing models at that time. The price at which Goldman, Sachs & Co. will buy or sell Notes at any time also will reflect its then current bid and ask spread for similar sized trades of structured notes.

In estimating the value of the Notes as of the time the terms of the Notes are set on the trade date, as disclosed on the front cover of this pricing supplement, Goldman, Sachs & Co.'s pricing models consider certain variables, including principally its credit spreads, interest rates (forecasted, current and historical rates), volatility, price-sensitivity analysis and the time to maturity of the notes. These pricing models are proprietary and rely in part on certain assumptions about future events, which may prove to be incorrect. As a result, the actual value you would receive if you sold your Notes in the secondary market, if any, to others may differ, perhaps materially, from the estimated value of your notes determined by reference to Goldman Sachs & Co.'s models due to, among other things, any differences in pricing models or assumptions used by others.

The difference between the estimated value of the Notes as of the time the terms of the Notes are set on the trade date and the original issue price is a result of certain factors, including principally the underwriting discount and commissions, the expenses incurred in creating, documenting and marketing the notes, and an estimate of the difference between the amounts we pay to Goldman, Sachs & Co. and the amounts Goldman, Sachs & Co. pays to us in connection with your notes. We pay to Goldman, Sachs & Co. amounts based on what we would pay to holders of a non-structured note with a similar maturity. In return for such payment, Goldman, Sachs & Co. pays to us the difference between the total payment amount due at maturity on your notes and the face amount of your notes.

In addition to the factors discussed above, the value and quoted price of the Notes at any time will reflect many factors and cannot be predicted. If Goldman, Sachs & Co. makes a market in the Notes, the price quoted by Goldman, Sachs & Co. would reflect any changes in market conditions and other relevant factors, including any deterioration in our creditworthiness or perceived creditworthiness. These changes may adversely affect the value of the Notes, including the price you may receive for the Notes in any market making transaction. To the extent that Goldman, Sachs & Co. makes a market in the notes, the quoted price will reflect the estimated value determined by reference to Goldman, Sachs & Co.'s pricing models at that time, plus or minus its then current bid and ask spread for similar sized trades of structured notes (and subject to the declining excess amount described above).

If at any time a third party dealer quotes a price to purchase your Notes or otherwise values your Notes, that price may be significantly different (higher or lower) than any price quoted by Goldman, Sachs & Co. See "—The Price at Which the Notes may be Sold prior to Maturity will Depend on a Number of Factors and May Be Substantially Less Than the Amount for Which They Were Originally Purchased."

Furthermore, if you sell your Notes, you will likely be charged a commission for secondary market transactions, or the price will likely reflect a dealer discount. This commission or discount will further reduce the proceeds you would receive for your notes in a secondary market sale.

There is no assurance that Goldman, Sachs & Co. or any other party will be willing to purchase your Notes at any price and, in this regard, Goldman, Sachs & Co. is not obligated to make a market in the Notes. See "—The Notes Lack Liquidity."

The Inclusion of Dealer Spread and Projected Profit from Hedging in the Original Issue Price is Likely to Adversely Affect Secondary Market Prices

Assuming no change in market conditions or any other relevant factors, the price, if any, at which Scotia Capital (USA) Inc. or any other party is willing to purchase the Notes at any time in secondary market transactions will likely be significantly lower than the original issue price, since secondary market prices are likely to exclude underwriting commissions paid with respect to the Notes and the cost of hedging our obligations under the Notes that are included in the original issue price. The cost of hedging includes the projected profit that we and/or our subsidiaries may realize in consideration for assuming the risks inherent in managing the hedging transactions. These secondary market prices are also likely to be reduced by the costs of unwinding the related hedging transactions. In addition, any secondary market prices may differ from values determined by pricing models used by Scotia Capital (USA) Inc. as a result of dealer discounts, mark-ups or other transaction costs.

Risk of Loss at Maturity

Any payment on the Notes at maturity depends on the Percentage Change of the Reference Asset. The Bank will only repay you the full Principal Amount of your Notes if the Percentage Change is zero or positive. If the Percentage Change is negative, you will lose a significant portion of your initial investment. ***Accordingly, you may lose your entire investment in the Notes if the percentage decline from the Initial Level to the Final Level is negative.***

Your Potential Payment at Maturity Is Limited by the Maximum Redemption Amount

The Payment at Maturity will not exceed the Maximum Redemption Amount. Therefore, if the appreciation of the Reference Asset exceeds the cap on appreciation in the Maximum Redemption Amount, the Notes will provide less opportunity to participate in the appreciation of the Reference Asset than an investment in a security linked to the Reference Asset providing full participation in the appreciation. Accordingly, the return on the Notes may be less than the return would be if you made an investment in a security directly linked to the positive performance of the Reference Asset.

The Notes Differ from Conventional Debt Instruments

The Notes are not conventional notes or debt instruments. The Notes do not provide you with interest payments prior to maturity as a conventional fixed-rate or floating-rate debt security with the same maturity would. The return that you will receive on the Notes, which could be negative, may be less than the return you could earn on other investments. Even if your return is positive, your return may be less than the return you would earn if you bought a conventional senior interest bearing debt security of the Bank.

No Interest

The Notes will not bear interest and, accordingly, you will not receive any interest payments on the Notes.

Your Investment is Subject to the Credit Risk of The Bank of Nova Scotia

The Notes are senior unsecured debt obligations of the Bank, and are not, either directly or indirectly, an obligation of any third party. As further described in the accompanying prospectus, prospectus supplement and product prospectus supplement, the Notes will rank on par with all of the other unsecured and unsubordinated debt obligations of the Bank, except such obligations as may be preferred by operation of law. Any payment to be made on the Notes, including the Payment at Maturity, depends on the ability of the Bank to satisfy its obligations as they come due. As a result, the actual and perceived creditworthiness of the Bank may affect the market value of the Notes and, in the event the Bank were to default on its obligations, you may not receive the amounts owed to you under the terms of the Notes. If you sell the Notes prior to maturity, you may receive substantially less than the Principal Amount of your Notes.

The Notes are Subject to Market Risk

The return on the Notes is directly linked to the performance of the Reference Asset and indirectly linked to the value of the Reference Asset constituent stocks, and the extent to which the Percentage Change is positive or negative. The levels of the Reference Asset can rise or fall sharply due to factors specific to the Reference Asset constituent stocks, as well as general market factors, such as general market volatility and levels, interest rates and economic and political conditions.

The Participation Rate Applies Only at Maturity

You should be willing to hold your Notes to maturity. If you are able to sell your Notes prior to maturity in the secondary market, the price you receive will likely not reflect the full economic value of the Participation Rate or the Notes themselves, and the return you realize may be less than the Percentage Change even if such return is positive. You may receive the full benefit of the Participation Rate only if you hold your Notes to maturity.

The Payment at Maturity Is Not Linked to the Level of the Reference Asset at Any Time Other Than the Valuation Date

The Payment at Maturity will be based on the Final Level (subject to adjustments as described). Therefore, for example, if the closing level of the Reference Asset declined substantially as of the Valuation Date compared to the Trade Date, the Payment at Maturity may be significantly less than it would otherwise have been had the Payment at Maturity been linked to the closing levels of the Reference Asset prior to the Valuation Date. Although the actual level of the Reference Asset at maturity or at other times during the term of the Notes may be higher than the Final Level, you will not benefit from the closing levels of the Reference Asset at any time other than the Valuation Date.

If the Levels of the Reference Asset or the Reference Asset Constituent Stocks Change, the Market Value of Your Notes May Not Change in the Same Manner

Your Notes may trade quite differently from the performance of the Reference Asset or the Reference Asset constituent stocks. Changes in the levels of the Reference Asset or the Reference Asset constituent stocks may not result in a comparable change in the market value of your Notes. We discuss some of the reasons for this disparity under "—The Price at Which the Notes may be Sold prior to Maturity will Depend on a Number of Factors and May Be Substantially Less Than the Amount for Which They Were Originally Purchased" below.

Holding the Notes is Not the Same as Holding the Reference Asset Constituent Stocks

Holding the Notes is not the same as holding the Reference Asset constituent stocks. As a holder of the Notes, you will not be entitled to the voting rights or rights to receive dividends or other distributions or other rights that holders of the Reference Asset constituent stocks would enjoy.

No Assurance that the Investment View Implicit in the Notes Will Be Successful

It is impossible to predict with certainty whether and the extent to which the level of the Reference Asset will rise or fall. There can be no assurance that the level of the Reference Asset will rise above the Initial Level. The Final Level may be influenced by complex and interrelated political, economic, financial and other factors that affect the Reference Asset constituent stocks.

You should be willing to accept the risks of the price performance of equity securities in general and the Reference Asset constituent stocks in particular, and the risk of losing some or all of your initial investment.

Furthermore, we cannot give you any assurance that the future performance of the Reference Asset or the Reference Asset constituent stocks will result in your receiving an amount greater than or equal to the Principal Amount of your Notes. Certain periods of historical performance of the Reference Asset or the Reference Asset constituent stocks would have resulted in you receiving less than the Principal Amount of your Notes if you had owned notes with terms similar to these Notes in the past. See "Information Regarding The Reference Asset" in this pricing supplement for further information regarding the historical performance of the Reference Asset.

The Reference Asset Reflects Price Return Only and Not Total Return

The return on your Notes is based on the performance of the Reference Asset, which reflects the changes in the market prices of the Reference Asset constituent stocks. It is not, however, linked to a ''total return'' index or strategy, which, in addition to reflecting those price returns, would also reflect dividends paid on the Reference Asset constituent stocks. The return on your Notes will not include such a total return feature or dividend component.

Past Performance is Not Indicative of Future Performance

The actual performance of the Reference Asset over the life of the Notes, as well as the amount payable at maturity, may bear little relation to the historical performance of the Reference Asset or to the hypothetical return examples set forth elsewhere in this pricing supplement. We cannot predict the future performance of the Reference Asset.

We May Sell an Additional Aggregate Principal Amount of the Notes at a Different Issue Price

We may decide to sell an additional aggregate Principal Amount of the Notes subsequent to the date of this pricing supplement. The issue price of the Notes in the subsequent sale may differ substantially (higher or lower) from the original issue price you paid as provided on the cover of this pricing supplement.

Changes Affecting the Reference Asset Could Have an Adverse Effect on the Value of the Notes

The policies of MSCI Inc., the sponsor of the Reference Asset (the ''Sponsor'' or "MSCI"), concerning additions, deletions and substitutions of the Reference Asset constituent stocks and the manner in which the Sponsor takes account of certain changes affecting those Reference Asset constituent stocks may adversely affect the level of the Reference Asset. The policies of the Sponsor with respect to the calculation of the Reference Asset could also adversely affect the level of the Reference Asset. The Sponsor may discontinue or suspend calculation or dissemination of the Reference Asset. Any such actions could have a material adverse effect on the value of the Notes.

The Bank Cannot Control Actions by the Sponsor and the Sponsor Has No Obligation to Consider Your Interests

The Bank and its affiliates are not affiliated with the Sponsor and have no ability to control or predict its actions, including any errors in or discontinuation of public disclosure regarding methods or policies relating to the calculation of the Reference Asset. The Sponsor is not involved in the Notes offering in any way and has no obligation to consider your interest as an owner of the Notes in taking any actions that might negatively affect the market value of your Notes.

The Notes are Subject to Currency Exchange Rate Risk

The MSCI EAFE Index invests in securities that are traded and quoted in foreign currencies on non-U.S. markets. The prices of the constituent country indices are converted into U.S. dollars for purposes of calculating the value of the MSCI EAFE Index. As a result, holders of the Notes will be exposed to currency exchange rate risk with respect to each of the currencies represented in the index. The values of the currencies of the countries in which the MSCI EAFE Index may invest may be subject to a high degree of fluctuation due to changes in interest rates, the effects of monetary policies issued by the United States, foreign governments, central banks or supranational entities, the imposition of currency controls or other national or global political or economic developments. An investor’s net exposure will depend on the extent to which the relevant non-

U.S. currencies strengthen or weaken against the U.S. dollar and the relative weight of each non-U.S. security in the portfolio of the MSCI EAFE Index. If, taking into account such weighting, the U.S. dollar strengthens against the relevant non-U.S. currencies, the value of securities in which the MSCI EAFE Index invests will be adversely affected and the value of the Notes may decrease.

The Notes are Subject to Non-U.S. Securities Market Risk

The Reference Asset constituent stocks that comprise the MSCI EAFE Index are issued by non-U.S. companies in non-U.S. securities markets. An investment in securities linked directly or indirectly to the value of securities issued by non-U.S. companies involves particular risks. Generally, non-U.S. securities markets may be more volatile than U.S. securities markets, and market developments may affect non-U.S. markets differently from U.S. securities markets. Direct or indirect government intervention to stabilize these non-U.S. markets, as well as cross shareholdings in non-U.S. companies, may affect trading prices and volumes in those markets. There is generally less publicly available information about non-U.S. companies than about those U.S. companies that are subject to the reporting requirements of the SEC, and non-U.S. companies are subject to accounting, auditing and financial reporting standards and requirements that differ from those applicable to U.S. reporting companies. Securities prices in non-U.S. countries are subject to political, economic, financial and social factors that may be unique to the particular country. These factors, which could negatively affect the non-U.S. securities markets, include the possibility of recent or future changes in the non-U.S. government's economic and fiscal policies, the possible imposition of, or changes in, currency exchange laws or other non-U.S. laws or restrictions applicable to non-U.S. companies or investments in non-U.S. equity securities. Moreover, certain aspects of a particular non-U.S. economy may differ favorably or unfavorably from the U.S. economy in important respects, such as growth of gross national product, rate of inflation, capital reinvestment, resources and self-sufficiency. Finally, it will likely be more costly and difficult to enforce the laws or regulations of a non-U.S. country or exchange. All of these factors could have a material adverse effect on the value of the Notes.

In addition, some of the Reference Asset constituent stocks are companies located within the Eurozone. The Eurozone is and has been undergoing severe financial stress, and the political, legal and regulatory ramifications are impossible to predict. Changes within the Eurozone could have a material adverse effect on the performance of the Reference Asset and, consequently, on the value of the Notes.

The Price at Which the Notes May Be Sold Prior to Maturity will Depend on a Number of Factors and May Be Substantially Less Than the Amount for Which They Were Originally Purchased

The price at which the Notes may be sold prior to maturity will depend on a number of factors. Some of these factors include, but are not limited to: (i) actual or anticipated changes in the level of the Reference Asset over the full term of the Note, (ii) volatility of the level of the Reference Asset and the market's perception of future volatility of the level of the Reference Asset, (iii) changes in interest rates generally, (iv) any actual or anticipated changes in our credit ratings or credit spreads, and (v) time remaining to maturity. In particular, because the provisions of the Note relating to the Payment at Maturity and the Maximum Redemption Amount behave like options, the value of the Note will vary in ways which are non-linear and may not be intuitive.

Depending on the actual or anticipated level of the Reference Asset and other relevant factors, the market value of the Notes may decrease and you may receive substantially less than 100% of the issue price if you sell your Notes prior to maturity.

The Notes Lack Liquidity

The Notes will not be listed on any securities exchange or automated quotation system. Therefore, there may be little or no secondary market for the Notes. Scotia Capital (USA) Inc. and the Dealer may, but are not obligated to, make a market in the Notes. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the Notes easily. Because we do not expect that other broker-dealers will participate significantly in the secondary market for the Notes, the price at which you may be able to trade your Notes is likely to depend on the price, if any, at which Scotia Capital (USA) Inc. and the Dealer are willing to purchase the Notes from you. If at any time Scotia Capital (USA) Inc. and the Dealer were not to make a market in the Notes, it is likely that there would be no secondary market for the Notes. Accordingly, you should be willing to hold your Notes to maturity.

Hedging Activities by the Bank and the Dealer May Negatively Impact Investors in the Notes and Cause Our Respective Interests and Those of Our Clients and Counterparties to Be Contrary to Those of Investors in the Notes

The Bank or one or more of our respective affiliates and the Dealer or one or more of its affiliates has hedged or expects to hedge the obligations under the Notes by purchasing futures and/or other instruments linked to the Reference Asset. The Bank, the Dealer or one or more of our respective affiliates also expects to adjust the hedge by, among other things, purchasing or selling any of the foregoing, and perhaps other instruments linked to the Reference Asset or one or more of the Reference Asset constituent stocks, at any time and from time to time, and to unwind the hedge by selling any of the foregoing on or before the Valuation Date.

The Bank or one or more of our respective affiliates and the Dealer or one or more of its affiliates may also enter into, adjust and unwind hedging transactions relating to other basket- or index-linked Notes whose returns are linked to changes in the level or price of the Reference Asset or the Reference Asset constituent stocks. Any of these hedging activities may adversely affect the level of the Reference Asset—directly or indirectly by affecting the price of the Reference Asset constituent stocks—and therefore the market value of the Notes and the amount you will receive, if any, on the Notes. In addition, you should expect that these transactions will cause the Bank, or our respective affiliates, or the Dealer, or its affiliates, or our respective clients or counterparties, to have economic interests and incentives that do not align with, and that may be directly contrary to, those of an investor in the Notes. The Bank, or our respective affiliates, or the Dealer, or its affiliates will have no obligation to take, refrain from taking or cease taking any action with respect to these transactions based on land-based drilling operations. The exchange rate between Canadian dollars and U.S. dollars has fluctuated over the last ten years. If the value of the Canadian dollar against the U.S. dollar weakens, revenues and earnings of our Canadian operations will be 32 reduced when they are translated to U.S. dollars. Also, the value of our Canadian net assets in U.S. dollars may decline. ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA. Financial Statements are filed as a part of this Report at the end of Part IV hereof beginning at page F-1, Index to Consolidated Financial Statements, and are incorporated herein by this reference. ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE. None. ITEM 9A. CONTROLS AND PROCEDURES. As of the end of the period covered by this Annual Report on Form 10-K/A, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934) was evaluated by our management, with the participation of our Chief Executive Officer, Cloyce A. Talbott (principal executive officer), and our Vice President, Chief Financial Officer, Secretary and Treasurer, Jonathan D. Nelson (principal financial officer). Messrs. Talbott and Nelson have concluded that our disclosure controls and procedures are effective, as of the end of the period covered by this Annual Report on Form 10-K/A, to help ensure that information we are required to disclose in reports that we file with the SEC is accumulated and communicated to management and recorded, processed, summarized and reported within the time periods prescribed by the SEC. There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter (the quarter ended December 31, 2002) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. 33 PART III ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT. The information required by this Item is incorporated herein by reference to the information appearing under the captions "Proposal No. 1 -- Election of Directors", "Executive Officers" and "Other Matters -- Section 16(a) Beneficial Ownership Reporting Compliance" in the Definitive Proxy Statement filed by the Company with the Securities and Exchange Commission on March 24, 2003 (the "Proxy Statement"). ITEM 11. EXECUTIVE COMPENSATION. The information required by this Item is incorporated herein by reference to the information appearing under the captions "Proposal No. 1 -- Election of Directors -- Compensation of Directors", "Summary Compensation Table", "Options

Granted During Fiscal Year 2002", "Aggregated Option Exercises in 2002 and Value Table at December 31, 2002", "Employment Contracts and Change-in-Control Arrangements" and "Compensation Committee Interlocks and Insider Participation" in the Proxy Statement. ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT. The information required by this Item is incorporated herein by reference to the information appearing under the captions "Proposal No. 2 -- Amendment to 1997 Long-Term Incentive Plan -- Summary Information Pertaining to All Stock Option and Related Plans of Patterson-UTI" and "Security Ownership of Principal Stockholders and Management" in the Proxy Statement. ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS. The information required by this Item is incorporated herein by reference to the information appearing under the caption "Certain Transactions" in the Proxy Statement. ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES. This information is not required to be disclosed in this Annual Report on Form 10-K/A pursuant to the SEC's Final Rule Release No. 33-8183, dated January 28, 2003. 34 PART IV ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K. (a)(1) Financial Statements See Index to Consolidated Financial Statements on page F-1 of this Report. (a)(2) Financial Statement Schedule Schedule II -- Valuation and qualifying accounts is filed herewith on page S-1. All other financial statement schedules have been omitted because they are not applicable or the information required therein is included elsewhere in the financial statements or notes thereto. (a)(3) Exhibits The following exhibits are filed herewith or incorporated by reference herein. 2.1 Agreement and Plan of Merger dated March 10, 2002 among Patterson-UTI Energy, Inc., Patterson-UTI Drilling Company LP, LLLP and Odin Drilling, Inc.(1) 2.2 Stock Purchase Agreement dated as of June 11, 2002 by and among Patterson-UTI Energy, Inc. and Roper Family Properties, Ltd., Estate of Joe G. Roper, Patricia R. Elledge, Judy Kathleen Roper Davis, Jeanie Elisabeth Cornelius and J. Mark Roper.(2) 2.3 Stock Purchase Agreement dated as of October 28, 2002 by and between Patterson-UTI Energy, Inc. and J. Mark Roper.(3) 3.1 Restated Certificate of Incorporation, as amended.(4) 3.2 Amended and Restated Bylaws.(5) 4.1 Rights Agreement dated January 2, 1997, between Patterson Energy, Inc. and Continental Stock Transfer & Trust Company.(6) 4.2 Amendment to Rights Agreement dated as of October 23, 2001.(7) 4.3 Restated Certificate of Incorporation, as amended (See Exhibit 3.1) 4.4 Registration Rights Agreement with Bear, Stearns and Co. Inc., dated March 25, 1994, as assigned by REMY Capital Partners III, L.P.(5) 4.5 Patterson-UTI Energy, Inc. 1993 Stock Incentive Plan, as amended.(8)* 4.6 Patterson-UTI Energy, Inc. Non-Employee Directors' Stock Option Plan, as amended.(9)* 4.7 Patterson-UTI Energy, Inc. Amended and Restated 1997 Long-Term Incentive Plan.(4)* 4.8 Amended and Restated Patterson-UTI Energy, Inc. Non-Employee Director Stock Option Plan(4)* 4.9 Amended and Restated Patterson-UTI Energy, Inc. 1996 Employee Stock Option Plan.(10)* 4.10 1997 Stock Option Plan of DSI Industries, Inc.(11)* 4.11 Stock Option Agreement dated July 20, 2001 between Patterson-UTI Energy, Inc. and Kenneth R. Peak (a non-employee director of Patterson-UTI Energy, Inc.).(5)* 10.1 For additional material contracts, see Exhibits 4.1, 4.2 and 4.4 through 4.11. 10.2 Amended and Restated Loan and Security Agreement, dated July 26, 2002.(12) 10.3 Revolving Loan Promissory Note, dated July 26, 2002.(12) 10.4 Amended and Restated Guaranty Agreement, dated July 26, 2002.(12) 10.5 Amended and Restated Pledge Agreement, dated July 26, 2002.(12) 10.6 Model Form Operating Agreement.(13) 10.7 Form of Drilling Bid Proposal and Footage Drilling Contract.(13) 10.8 Form of Turnkey Drilling Agreement.(13) 21.1 Subsidiaries of the Registrant.(14) 23.1 Consent of Independent Auditors -- PricewaterhouseCoopers LLP. 23.2 Consent of Independent Auditors -- Ernst & Young LLP. 23.3 Consent of Independent Petroleum Engineer -- M. Brian Wallace, P.E. 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended. 35 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended. 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. --------------- (1) Incorporated herein by reference to Item 6, "Exhibits and Reports on Form 8-K" to Form 10-Q for the quarterly period ended March 31, 2002. (2) Incorporated herein by reference to Item 7, "Material to be Filed as Exhibits" to Amendment No. 1 to Schedule 13D filed on October 31, 2002. (3) Incorporated herein by reference to Item 6, "Exhibits and Reports on Form 8-K" to Form 10-Q for the quarterly period ended June 30, 2002. (4) Incorporated herein by reference to Item 6, "Exhibits and Reports on Form 8-K" to Form 10-Q for the quarterly period ended June 30, 2003. (5) Incorporated herein by reference to Item 14, "Exhibits, Financial Statement Schedules and Reports on Form 8-K" to Annual Report on Form 10-K for the fiscal year ended December 31, 2001. (6) Incorporated by reference to Item 2, "Exhibits" to Registration Statement on Form 8-A filed on January 14, 1997. (7) Incorporated herein by reference to Item 6, "Exhibits and Reports on Form 8-K" to Form

10-Q for the quarterly period ended September 30, 2001, filed on October 31, 2001. (8) Incorporated herein by reference to Item 8, "Exhibits" to Registration Statement on Form S-8 (File No. 333-39471) filed on March 13, 1998. (9) Incorporated herein by reference to Item 8, "Exhibits" to Registration Statement on Form S-8 (File No. 333-39471) filed on November 4, 1997. (10) Incorporated herein by reference to Item 8, "Exhibits" to Post-Effective Amendment No. 1 to Registration Statement on Form S-8 (file No. 333-60466) filed on July 25, 2001. (11) Incorporated herein by reference to Item 8, "Exhibits" to Post-Effective Amendment No. 1 to Registration Statement on Form S-8 (file No. 333-60470) filed on July 25, 2001. (12) Incorporated herein by reference to Item 6, "Exhibits and Reports on Form 8-K" to Form 10-Q for the quarterly period ended June 30, 2001, filed on August 1, 2001. (13) Incorporated herein by reference to Item 27, "Exhibits" to Registration Statement on Form SB-2 (File No. 33-68058-FW) filed on August 30, 1993. (14) Incorporated herein by reference to Item 15, "Exhibits, Financial Statement Schedules and Reports on Form 8-K" to Annual Report on Form 10-K for the fiscal year ended December 31, 2002. * Management Contract or Compensatory Plan identified as required by Item 15(a)(3) of Form 10-K. (b) Reports on Form 8-K. There were no reports on Form 8-K filed during the three months ended December 31, 2002. 36 INDEX TO CONSOLIDATED FINANCIAL STATEMENTS F-1 REPORT OF INDEPENDENT AUDITORS The Board of Directors and Stockholders of Patterson-UTI Energy, Inc. In our opinion, based on our audits and the report of other auditors, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Patterson-UTI Energy, Inc. and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, based on our audits and the report of other auditors, the financial schedule listed in Item 14(a) (2) presents fairly, in all material respects, the information set forth therein, when read in conjunction with the related consolidated financial statements. These financial statements and financial schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial schedule based on our audits. The consolidated financial statements give retroactive effect to the merger of UTI Energy Corp. ("UTI") on May 8, 2001 in a transaction accounted for as a pooling of interests, as described in Note 2 to the consolidated financial statements. We did not audit the financial statements of UTI, which statements reflect total assets of $330 million as of December 31, 2000 and total revenues of $275 million for the year ended December 31, 2000. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for UTI, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion. As discussed in Notes 1 and 5 to the consolidated financial statements, in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," beginning in 2002 the Company no longer amortizes goodwill. PricewaterhouseCoopers LLP Houston, Texas February 3, 2003 F-2 REPORT OF INDEPENDENT AUDITORS To the Board of Directors Patterson-UTI Energy, Inc. We have audited the consolidated balance sheet of UTI Energy Corp. as of December 31, 2000 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended (not presented separately herein). Our audit also included the financial statement schedule listed in the Index at Item 14(a) of UTI Energy Corp.'s Annual Report (Form 10-K) for the year ended December 31, 2000 (also not presented separately herein). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of UTI Energy Corp. at December 31, 2000, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein. Ernst & Young LLP Houston, Texas February 16, 2001 F-3 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (IN THOUSANDS, EXCEPT SHARE DATA) DECEMBER 31, ------------------- 2002 2001 -------- -------- ASSETS Current assets: Cash and cash equivalents................................ $ 82,154 $ 33,584 Accounts receivable, net of allowance for doubtful accounts of $3,144 and $4,021 at December 31, 2002 and 2001, respectively.................................... 99,014 133,837 Federal and state income taxes receivable, net........... 24,719 1,673 Inventory... 15,323 16,272 Deferred tax assets..................................... 15,290 8,747 Other.. 6,515 5,345 -------- -------- Total current assets............................ 243,015 199,458 Property and equipment, at cost, net....................... 627,734 614,420 Goodwill and other intangible assets, net.................. 51,313 51,634 Investment in equity securities............................ 17,707 -- Other... 2,740 4,130 -------- -------- Total assets.................................... $942,509 $869,642 ======== ======== LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities: Accounts payable: Trade.. $ 30,618 $ 43,873 Accrued revenue distributions......................... 6,266 4,072 Other.. 2,755 4,833 Accrued expenses.. 35,513 36,508 -------- -------- Total current liabilities........................ 75,152 89,286 Deferred tax liabilities.................................. 127,006 92,859 Other... 2,795 355 -------- -------- Total liabilities............................... 204,953 182,500 -------- -------- Commitments and contingencies.............................. -- -- Stockholders' equity: Preferred stock, par value $.01; authorized 1,000,000 shares, no shares issued............................. -- -- Common stock, par value $.01; authorized 200,000,000 shares with 81,576,674 and 78,462,543 issued and 80,070,126 and 76,955,995 outstanding at December 31, 2002 and 2001, respectively.......................... 816 784 Additional paid-in capital.............................. 489,201 441,475 Retained earnings.. 261,003 258,834 Accumulated other comprehensive loss..................... (1,809) (2,296) Treasury stock, at cost, 1,506,548 shares................ (11,655) (11,655) -------- -------- Total stockholders' equity....................... 737,556 687,142 -------- -------- Total liabilities and stockholders' equity...... $942,509 $869,642 ======== ======== The accompanying notes are an integral part of these consolidated financial statements. F-4 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME (IN THOUSANDS, EXCEPT PER SHARE DATA) YEARS ENDED DECEMBER 31, ------------------------------ 2002 2001 2000 -------- -------- -------- Operating revenues: Drilling... $410,295 $839,931 $512,998 Drilling and completion fluids........................... 69,943 94,456 32,053 Pressure pumping.. 32,996 39,600 21,465 Oil and natural gas...................................... 14,723 15,988 15,806 -------- -------- -------- 527,957 989,975 582,322 -------- -------- -------- Operating costs and expenses: Drilling... 318,201 487,343 384,840 Drilling and completion fluids........................... 60,762 80,034 26,545 Pressure pumping....................................... 19,802 21,146 13,403 Oil and natural gas..................................... 3,956 5,190 4,872 Depreciation, depletion, and amortization................ 91,216 86,159 61,464 General and administrative............................... 26,140 28,561 22,190 Bad debt expense.. 320 2,045 570 Merger costs... -- 5,943 -- Restructuring and other charges.......................... 4,700 7,202 -- Other... (538) (820) (147) -------- -------- -------- 524,559 722,803 513,737 -------- -------- -------- Operating income.. 3,398 267,172 68,585 -------- -------- -------- Other income (expense): Interest income... 1,110 2,080 1,377 Interest expense....................................... (532) (3,142) (10,108) Other.. (137) 385 250 -------- -------- -------- 441 (677) (8,481) -------- -------- -------- Income before income taxes................................ 3,839 266,495 60,104 -------- -------- -------- Income tax expense (benefit): Current.. (21,878) 87,773 6,931 Deferred.. 23,548 14,560

15,947 -------- -------- -------- 1,670 102,333 22,878 -------- -------- -------- Net income.. $ 2,169 $164,162 $ 37,226 ======== ======== ======== Net income per common share: Basic... $ 0.03 $ 2.15 $ 0.52 ======== ======== ======== Diluted... $ 0.03 $ 2.07 $ 0.50 ======== ======== ======== Weighted average number of common shares outstanding: Basic.. 78,705 76,407 71,207 ======== ======== ======== Diluted... 81,252 79,197 74,841 ======== ======== ======== The accompanying notes are an integral part of these consolidated financial statements. F-5 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (IN THOUSANDS) COMMON STOCK ACCUMULATED ----------------- ADDITIONAL OTHER NUMBER PAID-IN RETAINED COMPREHENSIVE TREASURY OF SHARES AMOUNT CAPITAL EARNINGS INCOME (LOSS) STOCK TOTAL --------- ------ --------- -------- ------------- -------- -------- December 31, 1999................. 69,542 $695 $261,559 $57,446 $ -- $(10,005) $309,695 Issuance of common stock......... 4,203 42 120,964 -- -- -- 121,006 Issuance of stock purchase warrant....................... -- -- 900 -- -- -- 900 Treasury stock acquired.......... -- -- -- -- -- (1,650) (1,650) Exercise of stock purchase warrants...................... 1,054 11 683 -- -- -- 694 Exercise of stock options........ 1,451 15 6,254 -- -- -- 6,269 Tax benefit related to exercise of stock options.............. -- -- 7,129 -- -- -- 7,129 Foreign currency translation..... -- -- -- -- 30 -- 30 Net income...................... -- -- -- 37,226 -- -- 37,226 ------ ---- -------- -------- ------- -------- -------- December 31, 2000................. 76,250 763 397,489 94,672 30 (11,655) 481,299 Issuance of common stock......... 1,260 12 31,405 -- -- -- 31,417 Issuance of stock purchase warrant....................... -- -- 2,600 -- -- -- 2,600 Exercise of stock purchase warrants...................... 121 1 1,819 -- -- -- 1,820 Exercise of stock options........ 832 8 4,237 -- -- -- 4,245 Tax benefit related to exercise of stock options.............. -- -- 3,925 -- -- -- 3,925 Foreign currency translation..... -- -- -- -- (2,326) -- (2,326) Net income...................... -- -- -- 164,162 -- -- 164,162 ------ ---- -------- -------- ------- -------- -------- December 31, 2001................. 78,463 784 441,475 258,834 (2,296) (11,655) 687,142 Issuance of common stock......... 650 7 16,933 -- -- -- 16,940 Exercise of stock options and warrants...................... 2,464 25 15,714 -- -- -- 15,739 Tax benefit related to exercise of stock options.............. -- -- 15,079 -- -- -- 15,079 Foreign currency translation..... -- -- -- -- 457 -- 457 Change in unrealized gain on securities, net of tax......... -- -- -- -- 30 -- 30 Net income...................... -- -- -- 2,169 -- -- 2,169 ------ ---- -------- -------- ------- -------- -------- December 31, 2002................. 81,577 $816 $489,201 $261,003 $(1,809) $(11,655) $737,556 ====== ==== ======== ======== ======= ======== ======== The accompanying notes are an integral part of these consolidated financial statements. F-6 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN CASH FLOWS (IN THOUSANDS) YEARS ENDED DECEMBER 31, ------------------------------- 2002 2001 2000 -------- --------- --------- Cash flows from operating activities: Net income.. $ 2,169 $ 164,162 $ 37,226 Adjustments to reconcile net income to net cash provided by operating activities: Depreciation, depletion, and amortization............... 91,216 86,159 61,464 Provision for bad debts................................ 320 2,045 570 Deferred income tax expense............................ 23,548 14,560 15,947 Tax benefit related to exercise of stock options......... 15,079 3,925 7,129 Other... (538) (648) 881 Changes in operating assets and liabilities: Accounts receivable............................... 34,565 6,648 (63,323) Inventory and other current assets................. (222) (355) 7,105 Accrued federal income taxes receivable............ (23,216) 796 2,596 Accounts payable.................................. (11,079) (33,174) 24,077 Other liabilities.................................. (409) 9,888 4,525 -------- --------- --------- Net cash provided by operating activities........ 131,433 254,006 98,197 -------- --------- --------- Cash flows from investing activities: Acquisitions... -- (40,546) (56,627) Purchases of property and equipment..................... (83,843) (172,850) (95,822) Proceeds from sales of property and equipment........... 1,813 742 3,528 Purchase of investment equity securities................ (17,659) -- -- Change in other assets................................. 1,097 (1,101) 630 -------- --------- --------- Net cash used in investing activities........... (98,592) (213,755) (148,291) -------- --------- --------- Cash flows from financing activities: Proceeds from issuance of common stock.................. -- -- 98,766 Purchase of treasury stock............................. -- -- (1,650) Proceeds from issuance of notes payable................. -- 9,760 76,392 Payments of notes payable.............................. -- (89,176) (79,766) Proceeds from exercise of stock options and warrants..... 15,739 6,065 6,963 -------- --------- --------- Net cash provided by (used in) financing activities.................................. 15,739 (73,351) 100,705 -------- --------- --------- Net increase (decrease) in cash and cash equivalents.................................. 48,580 (33,100) 50,611 Foreign currency translation adjustment.......... (10)

(232) (34) Cash and cash equivalents at beginning of year............ 33,584 66,916 16,339 -------- --------- --------- Cash and cash equivalents at end of year.................. $ 82,154 $ 33,584 $ 66,916 ======== ========= ========= Supplemental disclosure of cash flow information: Net cash received (paid) during the year for: Interest....................................... $ (532) $ (3,142) $ (10,097) Income taxes.................................... 13,492 (81,802) (3,319) The accompanying notes are an integral part of these consolidated financial statements. F-7 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS -- (CONTINUED) Non-cash investing and financing activities: During March 2002, the Company acquired five SCR electric land-based drilling rigs through the acquisition of Odin Drilling, Inc., for a purchase price of $16.9 million. The purchase price consisted of 650,000 shares of common stock valued at $26.06 per share. A deferred tax liability of $4.1 million was recorded as a result of the transaction. The transaction was accounted for as a purchase and the related purchase price was allocated among the rigs based on their fair values. During 2001 the Company acquired Jones Drilling Corporation and certain assets of three other entities affiliated with Jones Drilling Corporation for $33.0 million, drilling rigs and related equipment from Cleere Drilling Company for an aggregate purchase price of $25.8 million and six drilling rigs through three separate transactions for $15.7 million. Of the $74.6 million, approximately $40.5 million was paid in cash as follows: (IN THOUSANDS) ------------- Purchase price.. $ 74,563 Less non-cash items: Common stock issued...................................... (31,417) Warrants issued.. (2,600) -------- Total cash paid..................................... $ 40,546 ======== During May, 2000 the Company acquired a drilling rig in exchange for certain drilling rig components and drill pipe with a net book value of approximately $970,000. No gain or loss was recognized on this transaction. During 2000, the Company acquired WEK Drilling Co., Inc., High Valley Drilling, Inc., the land drilling operations of Phelps Drilling International, Ltd., four drilling rigs through two separate transactions, and the drilling and completion fluids operations of Ambar, Inc., for an aggregate purchase price of approximately $79.8 million, of which approximately $56.6 million was paid in cash as follows: (IN THOUSANDS) ------------- Purchase price.. $ 79,767 Less non-cash items: Common stock issued...................................... (22,240) Warrants issued.. (900) -------- Total cash paid...................................... $ 56,627 ======== The accompanying notes are an integral part of these consolidated financial statements. F-8 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES A DESCRIPTION AND BASIS OF PRESENTATION FOLLOWS: DESCRIPTION OF BUSINESS -- Patterson-UTI Energy, Inc. and its wholly-owned subsidiaries, (collectively referred to herein as "Patterson-UTI" or the "Company") is a leading provider of onshore contract drilling services to major and independent oil and natural gas operators in Texas, New Mexico, Oklahoma, Louisiana, Mississippi, Utah, and Western Canada. The Company owns 324 drilling rigs. The Company provides drilling fluids, completion fluids, and related services to oil and natural gas operators in West Texas, Southeast New Mexico, South Texas, East Texas, Oklahoma, the Gulf Coast regions of Texas and Louisiana, and the Gulf of Mexico. The Company provides pressure pumping services to oil and natural gas operators in the Appalachian Basin. The Company is also engaged in the development, exploration, acquisition, and production of oil and natural gas. The Company's oil and natural gas operations are focused in producing regions in West Texas, Southeast New Mexico, and South Texas. BASIS OF PRESENTATION -- The consolidated financial statements of Patterson-UTI Energy, Inc. and its wholly-owned subsidiaries have been prepared to give retroactive effect to the merger between Patterson Energy, Inc. ("Patterson") and UTI Energy Corp. ("UTI") on May 8, 2001. The transaction was treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and accounted for as a pooling of interests for financial accounting purposes. These financial statements also give retroactive effect to the two for one stock split in October 2000 by UTI. A SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES FOLLOWS: PRINCIPLES OF CONSOLIDATION -- The consolidated financial statements include the accounts of Patterson-UTI and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. MANAGEMENT ESTIMATES -- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. REVENUE RECOGNITION -- Revenues are recognized when services are performed, except for revenues earned under turnkey contract drilling arrangements

which are recognized using the completed contract method of accounting, as described below. The Company follows the percentage-of-completion method of accounting for footage contract drilling arrangements. Under this method, drilling revenues and costs related to a well in progress are recognized proportionately over the time it takes to drill the well. Percentage-of-completion is determined based upon the amount of expenses incurred through the measurement date as compared to total estimated expenses to be incurred drilling the well. Under the percentage-of-completion method, management estimates are relied upon in the determination of the total estimated expenses to be incurred drilling the well. Due to the nature of turnkey contract drilling arrangements and risks therein, the Company follows the completed contract method of accounting for such arrangements. Under this method, all drilling advances and costs (including maintenance and repairs) related to a well in progress are deferred and recognized as revenues and expenses in the period the well is completed. Provisions for losses on incomplete or in-process wells are made when estimated total costs are expected to exceed estimated total revenues. INVENTORIES -- Inventories consist primarily of chemical products to be used in conjunction with the Company's drilling and completion fluids activities. The inventories are stated at the lower of cost or market, determined by the first-in, first-out method. F-9 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) PROPERTY AND EQUIPMENT -- Property and equipment is carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives. The method of depreciation does not change when equipment becomes idle. The estimated useful lives are defined below. USEFUL LIVES (YEARS) ------------ Drilling rigs and related equipment......................... 2-15 Office furniture... 3-10 Buildings.. 5-20 Automotive equipment....................................... 2-7 Other.. 3-7 OIL AND NATURAL GAS PROPERTIES -- Oil and natural gas properties are accounted for using the successful efforts method of accounting. Under the successful efforts method of accounting, exploration costs which result directly in the discovery of oil and natural gas reserves and all development costs are capitalized to the appropriate well. Exploration costs which do not result directly in discovering oil and natural gas reserves are charged to expense when such determinations are made. In accordance with paragraph 31(b) of SFAS 19, costs of exploratory wells are initially capitalized to wells in progress until the outcome of the drilling is known. We review wells in progress quarterly to determine the related reserve classification. If the reserve classification is uncertain after one year following the completion of drilling, we consider the costs of the well to be impaired and recognize the costs as expense. Geological and geophysical costs, including seismic costs, and costs to carry and retain undeveloped properties are charged to expense when incurred. The capitalized costs of both developmental and successful exploratory type wells, consisting of lease and well equipment, lease acquisition costs, and intangible development costs, are depreciated, depleted, and amortized on the units-of-production method, based on petroleum engineer estimates of proved oil and natural gas reserves of each respective field. The Company reviews its proved oil and natural gas properties for impairment when an event occurs such as downward revisions in reserve estimates or decreases in oil and natural gas prices. Proved properties are grouped by field and undiscounted cash flow estimates are provided by our reserve engineer. If the net book value of a field exceeds its undiscounted cash flow estimate, impairment expense is measured and recognized as the difference between its net book value and discounted cash flow. Unproved oil and natural gas properties are reviewed quarterly to determine impairment. The Company's intent to drill, lease expiration, and abandonment of area are considered. Assessment of impairment is made on a lease-by-lease basis. If an unproved property is determined to be impaired, then costs related to that property are expensed. Impairment expense is included in depreciation, depletion, and amortization in the accompanying financial statements. INTANGIBLE ASSETS -- Intangible assets consist primarily of goodwill and covenants not to compete arising from business combinations (see Notes 2 and 5). Intangible assets other than goodwill are amortized on a straight line basis over their estimated useful lives. Covenants not to compete are amortized over their underlying contractual lives. Prior to 2002, goodwill, representing the excess of the purchase price over the estimated fair value of the net assets of the acquired business, was amortized over the period of expected benefit of 15 years. However, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," ("SFAS No. 142") which requires that the Company cease amortization of all intangible assets having indefinite useful economic lives. Such assets, including goodwill, are not to be amortized until their lives are determined to be finite, however, a recognized intangible asset with an indefinite useful life should be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of the asset has decreased below its carrying value. At December 31, 2002, the Company evaluated its goodwill and determined that fair value had F-10 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) not decreased below carrying value and no adjustment to impair goodwill was necessary in accordance with SFAS No. 142. The following table summarizes depreciation, depletion, amortization, and impairment expense for 2002, 2001 and 2000 (in millions): 2002 2001 2000 ----- ----- ----- Depreciation expense....................................... $85.8 $72.6 $52.0 Depletion expense... 4.4 7.3 3.5 Amortization expense...................................... 0.3 5.2 6.0 Impairment of oil and gas properties....................... 0.7 1.1 -- ----- ----- ----- Total... $91.2 $86.2 $61.5 ===== ===== ===== MAINTENANCE AND REPAIRS -- Maintenance and repairs are charged to expense when incurred. Renewals and betterments which extend the life or improve existing properties are capitalized. RETIREMENTS -- Upon disposition or retirement of property and equipment, the cost and related accumulated depreciation are removed and any resulting gain or loss is credited or charged to operations. INVESTMENTS IN EQUITY SECURITIES -- In accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," ("SFAS No. 115"), investments in Available-for-Sale equity securities are recorded at fair value. Unrealized gains and losses on such investments, net of tax, are included in accumulated other comprehensive loss in our consolidated balance sheet as of December 31, 2002 and are shown as a separate component of stockholders' equity (see Notes 3 and 6). EARNINGS PER SHARE -- The Company provides a dual presentation of its earnings per share; Basic Earnings per Share ("Basic EPS") and Diluted Earnings per Share ("Diluted EPS") in its Consolidated Statements of Operations. Basic EPS is computed using the weighted average number of shares outstanding during the year. Diluted EPS includes common stock equivalents which are dilutive to earnings per share. For the years ended December 31, 2002, 2001, and 2000, dilutive securities, consisting of certain stock options and warrants as described in Note 11, included in the calculation of Diluted EPS were 2.5 million shares, 2.8 million shares, and 3.6 million shares, respectively. At December 31, 2002, 2001, and 2000, there were potentially dilutive securities of 328,500, 490,000, and 46,000, respectively, excluded from the calculation of Diluted EPS as their exercise prices were greater than the average market price for the respective year. INCOME TAXES -- The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for operating loss and tax credit carryforwards and for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized. STOCK BASED COMPENSATION -- The Company grants stock options to employees and non-employee directors under stock-based incentive compensation plans, (the "Plans"). The Company accounts for all stock-based employee compensation plans under the recognition and measurement provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB No. 25") and related interpretations. Under APB No. 25, no stock-based employee compensation cost is reflected in net income, as all options granted F-11 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) under those plans had an exercise price equal to or in excess of the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share as if the company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation: YEARS ENDED DECEMBER 31, -------------------------------------- 2002 2001 2000 ----------- ----------- ----------- (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) Net income, as reported........................... $ 2,169 $164,162 $ 37,226 Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects(1).... (5,296) (7,053) (6,016) -------- -------- -------- Pro forma net income (loss)....................... $ (3,127) $157,109 $ 31,210 ======== ======== ======== Earnings (loss) per share: Basic, as reported.............................. $ 0.03 $ 2.15 $ 0.52 ======== ======== ======== Basic, pro forma................................ $ (0.04) $ 2.06 $ 0.44 ======== ======== ======== Diluted, as reported............................ $ 0.03 $ 2.07 $ 0.50 ======== ======== ======== Diluted, pro forma.............................. $ (0.04) $ 1.98 $ 0.42 ======== ======== ======== Weighted-average fair value per share of options granted(1)...................................... $ 15.19 $ 9.97 $ 15.73 --------------- (1) See Note 11 for additional information regarding the computations presented here. STATEMENT OF CASH FLOWS -- For purposes of reporting cash flows, cash and cash equivalents include cash on deposit and unrestricted certificates of deposit with original maturities of 90 days or less. RECENTLY ISSUED ACCOUNTING STANDARDS -- The Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," ("SFAS No. 142") in June 2001. SFAS No. 142 supersedes APB Opinion No. 17, "Intangible Assets." Under the provisions of SFAS No. 142, which the Company adopted on January 1, 2002, goodwill is no longer amortized but is subject to an annual impairment test. During the years ended December 31, 2001 and 2000, goodwill amortization totaled approximately $4.7 million each year. The FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," ("SFAS No. 143") in July 2001. SFAS No. 143 addresses financial accounting requirements for retirement obligations associated with tangible long-lived assets. The provisions of SFAS No. 143, which the Company adopted on January 1, 2003, will result in the Company recording a liability of approximately $1.1 million for estimated costs to be incurred in connection with the abandonment of oil and natural gas properties in the future. In addition, the cumulative effect of this change in accounting policy, which will be recorded in the consolidated statement of income in the first quarter of 2003, will total approximately $500,000, net of tax. The FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS No. 144") in August 2001. SFAS No. 144 supersedes SFAS No. 121 and APB Opinion No. 30. The provisions of SFAS No. 144, which the Company adopted on January 1, 2002, did not have a material impact on the Company's consolidated financial statements. F-12 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) The FASB issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," ("SFAS No. 145") in April 2002. SFAS No. 145 amends existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of SFAS No. 145, which the Company adopted in 2002, did not have a material impact on the Company's consolidated financial statements. The FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," ("SFAS No. 146") in June 2002. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The provisions of SFAS No. 146 are not expected to have a material impact on the Company's consolidated financial statements. RECLASSIFICATIONS -- Certain reclassifications have been made to the 2001 and 2000 consolidated financial statements in order for them to conform with the 2002 presentation. 2. MERGERS AND ACQUISITIONS 2002 ACQUISITION ODIN DRILLING, INC. -- On March 21, 2002, the Company acquired five SCR electric land-based drilling rigs through the acquisition of Odin Drilling, Inc., for a purchase price of $16.9 million. The purchase price consisted of 650,000 shares of common stock valued at $26.06 per share. A deferred tax liability of $4.1 million was recorded as a result of the transaction. The transaction was accounted for as an acquisition of assets and the purchase price was allocated among the rigs based on their fair values. 2001 MERGER AND ACQUISITIONS CLEERE DRILLING COMPANY -- On December 21, 2001, the Company acquired 17 drilling rigs and related equipment from Cleere Drilling Company for an aggregate purchase price of $25.8 million. The purchase price consisted of $13.5 million cash plus 450,000 shares of its common stock and warrants to acquire an additional 325,000 shares of common stock at an exercise price of $26.75 per share. The common stock was recorded at $21.55 per share and the warrants were valued at $8.00 per underlying share of the Company's Common Stock using the Black-Scholes option valuation model. The transaction was accounted for as an acquisition of assets and the purchase price was allocated to the rigs and related equipment acquired. UTI ENERGY, CORP. -- On February 4, 2001, Patterson entered into an Agreement and Plan of Merger with UTI providing for the merger of the two entities. On May 8, 2001, the stockholders of each company approved the merger and the merger was consummated. Each outstanding share of UTI common stock was converted into one share of Patterson common stock and each option or warrant then outstanding representing the right to receive UTI common stock was converted into the right to purchase Patterson-UTI common stock on an equivalent basis. A total of 37,782,135 shares of common stock was issued pursuant to the merger and an additional 3,621,079 shares were reserved for issuance under the then outstanding UTI stock option plans. Additionally, the stockholders of Patterson approved an increase in the authorized shares of common stock from 50 million to 200 million and a name change to "Patterson-UTI Energy, Inc." The Company incurred $13.1 million in expenses related to the merger. The expenses consisted of $5.9 million in merger costs which were primarily related to professional fees paid to investment banking firms, attorneys, accountants and commercial printers for their professional services rendered and $7.2 million in restructuring costs and related charges incurred as a result of the following: - severance costs and related expenses of $2.8 million, - closing of duplicate operational facilities of $1.6 million, F-13 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) - costs of $1.4 million incurred in connection with changes to the Company's credit facilities (see Note 8), and - fees and expenses related to the transfer of licenses and leaseholds, and in some instances the impairment of such leaseholds, the combination or cancellation of various service contracts and the renegotiation of certain insurance policies of $1.4 million. The merger was treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and was accounted for as a pooling of interests for financial accounting purposes. The consolidated financial statements give retroactive effect to the merger. Certain adjustments were made in those periods to conform the previous accounting policies of UTI with those of Patterson. JONES DRILLING CORPORATION -- On January 5, 2001, the Company consummated the transactions contemplated by certain agreements among the Company and Jones Drilling Corporation and three of its affiliated entities. The acquired assets consisted of 21 drilling rigs and related equipment and approximately $2.3 million of net working capital. The purchase price of $33.2 million consisted of 810,070 shares of the Company's common stock valued at $26.8125 per share and $11.3 million cash plus approximately $240,000 in transaction costs. The transaction was accounted for as a business combination and the purchase price, net of working capital acquired, was allocated among the assets acquired based on their estimated fair market values as of the date of the transaction. OTHER -- In January 2001, the Company acquired six drilling rigs, through three separate transactions, for approximately $15.7 million cash in aggregate. The transactions were accounted for as acquisitions of assets and the purchase price was allocated to the rigs acquired. 2000 MERGER AND ACQUISITIONS AMBAR, INC. -- In October 2000, the Company completed, through a wholly owned subsidiary, the acquisition of the drilling and completion fluid operations of Ambar, Inc., a non-affiliated entity with its principal operations in Louisiana, the Gulf Coast region of South Texas and the Gulf of Mexico. The purchase price of $12.4 million consisted of cash of $11.7 million and $680,000 of direct costs incurred related to the acquisition. The assets acquired included net working capital of approximately $7.8 million (current assets of $18.2 million and current liabilities assumed of $10.4 million). The transaction was accounted for as a business combination and the purchase price, net of working capital acquired, was allocated to the fixed assets based on their estimated fair market values as of the date of the transaction. OTHER -- In September, 2000, the Company acquired four drilling rigs in two separate transactions for a total of $7.7 million in cash. The transactions were accounted for as acquisitions of assets and the purchase price was allocated to the rigs acquired. HIGH VALLEY DRILLING, INC. -- On June 2, 2000, the Company completed the merger of High Valley Drilling, Inc., a privately held, non-affiliated company, with and into Patterson-UTI Drilling Company LP, LLLP, a wholly owned subsidiary of Patterson-UTI. The purchase price of $21.8 million was funded using 1,150,000 shares of common stock valued at $18 per share, three-year warrants to acquire 127,000 shares at $22 per share and approximately $208,000 of direct costs incurred related to the transaction. Using a Black-Scholes model, the warrants were valued at $900,000. The assets acquired consisted of eight drilling rigs and other related equipment. The transaction was accounted for as an acquisition of assets and the purchase price was allocated among such assets based upon the estimated fair market value of the drilling rigs and related equipment. ASSET SWAP. -- On May 15, 2000, the Company, in a non-monetary exchange, acquired a drilling rig in exchange for certain drilling rig components and drill pipe with a net book value of approximately $970,000. F-14 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) The transaction was accounted for as an acquisition of assets and no gain or loss was recognized on this transaction. PHELPS DRILLING INTERNATIONAL LTD. -- On May 5, 2000, the Company acquired the land drilling operations of Phelps Drilling International Ltd. for $29.6 million in cash. Phelps' assets and operations are located in the Canadian provinces of Alberta, Saskatchewan and British Columbia. The acquired assets consisted of fourteen land drilling rigs and related equipment. The acquisition was accounted for as a business combination and the purchase price was allocated among such assets based upon the fair market value of the drilling rigs and related equipment. WEK DRILLING CO., INC. -- On March 31, 2000, the Company acquired the outstanding stock of WEK Drilling Co., Inc., a privately held, non-affiliated drilling company with its principal operations in Southeast New Mexico. The purchase price of $6.8 million, which is net of cash acquired, was funded using $5.66 million of proceeds from the Company's existing credit facility and 53,000 shares of the Company's common stock valued at $29.0625 per share and approximately $77,000 of direct costs incurred related to the transaction. The assets acquired consisted of four operable drilling rigs, other related equipment, and working capital of $1.2 million. Immediately following the transaction, certain assets unrelated to the oil and natural gas industry were sold back to one of the previous owners for a cash payment of $1.0 million. The transaction was accounted for as an acquisition of assets and the purchase price of $6.8 million, less the $1.0 million of unrelated assets that were subsequently sold and the net working capital acquired, was allocated among the acquired assets based upon the estimated fair market value of the drilling rigs and related equipment. 3. COMPREHENSIVE INCOME The following table illustrates the Company's comprehensive income including the effects of foreign currency translation adjustments for the years ended December 31, 2002, 2001, and 2000 (in thousands): 2002 2001 2000 ------ -------- ------- Net income.. $2,169 $164,162 $37,226 Other comprehensive income: Foreign currency translation adjustment related to our Canadian operations.................................. 457 (2,326) 30 Unrealized gain on equity securities, net of tax........ 30 -- -- ------ -------- ------- Comprehensive income................................... $2,656 $161,836 $37,256 ====== ======== ======= 4. PROPERTY AND EQUIPMENT Property and equipment consisted of the following at December 31, 2002 and 2001 (in thousands): 2002 2001 ---------- -------- Drilling rigs and related equipment......................... $ 895,125 $810,910 Other equipment.. 54,788 46,201 Oil and natural gas properties............................. 49,736 45,839 Buildings.. 11,073 10,357 Land.. 3,779 3,703 ---------- -------- 1,014,501 917,010 Less accumulated depreciation and depletion................ (386,767) (302,590) ---------- -------- $ 627,734 $614,420 ========== ======== F-15 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) 5. GOODWILL AND OTHER INTANGIBLE ASSETS Intangible assets consist primarily of goodwill and covenants not to compete arising from business combinations (see Note 2). In accordance with SFAS No. 142, all of our intangible assets that have definite lives are being amortized on a straight-line basis over their estimated useful lives and goodwill is evaluated to determine if fair value of the asset has decreased below its carrying value. At December 31, 2002, we evaluated goodwill and determined no adjustment to impair goodwill was necessary. Amortization expense of approximately $4.7 million recognized during 2001 and during 2000, would not have been recognized under SFAS No. 142. Goodwill and other intangible assets as of December 31, 2002 and 2001 are as follows (in thousands): 2002 2001 ------- ------- Goodwill.. $69,860 $69,860 Accumulated amortization................................... (19,661) (19,661) ------- ------- Goodwill, net... 50,199 50,199 ------- ------- Covenants-not-to-compete and other......................... $ 1,956 $ 3,635 Accumulated amortization................................... (842) (2,200) ------- ------- Other intangible assets, net............................... 1,114 1,435 ------- ------- Intangible assets, net.................................... $51,313 $51,634 ======= ======= The amount of goodwill and other intangible assets as of December 31, 2002 and 2001 assigned to the contract drilling and drilling and completion fluids operating segments, the only operating segments that had intangible assets for such periods, is as follows (in thousands): 2002 Contract Drilling: Goodwill..................... $56,543.. Accumulated Amortization........ $16,278 Non-Competes & Other.......... $ 1,909 Accumulated Amortization........ $ 828 Drilling and Completion Fluids: Goodwill..................... $13,317 Accumulated Amortization........ $ 3,383 Non-Competes & Other.......... $ 47 Accumulated Amortization........ $ 14 2001 Contract Drilling: Goodwill..................... $56,543 Accumulated Amortization........ $16,278 Non-Competes & Other.......... $ 3,588 Accumulated Amortization........ $ 2,189 Drilling and Completion Fluids: Goodwill..................... $13,317 Accumulated Amortization........ $ 3,383 Non-Competes & Other.......... $ 47 Accumulated Amortization........ $ 11 F-16 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) Change in the net carrying amount of goodwill for the year ended December 31, 2002 is as follows (in thousands): DRILLING & COMPLETION DRILLING FLUIDS TOTAL -------- ---------- ------- Balance at December 31, 2001.......................... $40,265 $9,934 $50,199 Changes to goodwill.................................. -- -- -- ------- ------ ------- Balance at December 31, 2002.......................... $40,265 $9,934 $50,199 ======= ====== ======= Amortization expense consists of the following (in thousands): TWELVE MONTHS ENDED DECEMBER 31, --------------------------------- 2002 2001 2000 -------- -------- -------- Goodwill.. $ -- $4,665 $4,665 Covenants-not-to-compete and other..................... 315 507 712 ------ ------ ------ Goodwill, net... $ 315 $5,172 $5,953 ====== ====== ====== Our weighted average amortization period for other intangible assets is approximately 10 years. The following table shows the estimated amortization expense for these assets for each of the five succeeding fiscal years (in thousands): 2003.. $134 2004.. $ 97 2005.. $ 97 2006.. $ 97 2007.. $ 97 Had SFAS No. 142 been in effect prior to January 1, 2002, our reported net income and net income per share would have been as follows (in thousands, except per share amounts): TWELVE MONTHS ENDED DECEMBER 31, -------------------------------- 2002 2001 2000 -------- ---------- --------- Net income: Reported.. $2,169 $164,162 $37,226 Goodwill amortization................................ -- 4,665 4,665 ------ -------- ------- Adjusted.. $2,169 $168,827 $41,891 ====== ======== ======= Basic net income per common share: Reported.. $ 0.03 $ 2.15 $ 0.52 Effect of goodwill amortization...................... -- 0.06 0.07 ------ -------- ------- Adjusted.. $ 0.03 $ 2.21 $ 0.59 ====== ======== ======= Diluted net income per common share: Reported.. $ 0.03 $ 2.07 $ 0.50 Effect of goodwill amortization...................... -- 0.06 0.06 ------ -------- ------- Adjusted.. $ 0.03 $ 2.13 $ 0.56 ====== ======== ======= F-17 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) 6. INVESTMENT IN EQUITY SECURITIES On June 14, 2002, the Company purchased 762,597 shares of the common stock of TMBR/Sharp Drilling, Inc. ("TMBR"), $.10 par value per share, for an aggregate cash purchase price of $12.7 million, or $16.60 per share plus approximately $39,000 of additional costs incurred to acquire the shares. The purchase agreement also included (i) an option for the Company to purchase, and (ii) an option for the sellers to require the Company to purchase, up to an additional 195,000 shares of common stock at $16.60 per share. This option was exercised in October 2002. The company also purchased an additional 101,076 shares on that date at the same price and incurred an additional $45,000 in costs to acquire the shares. As of December 31, 2002, the Company owned approximately 19.9% of the outstanding shares of TMBR. The accounting treatment of shares representing the Company's investment in the common stock of TMBR is affected by the Company's ability to sell shares within one year. As of December 31, 2002, the Company has restrictions on its ability to sell 892,742 of the TMBR shares within one year. These shares are reflected in the balance sheet at cost under the cost method of accounting in accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investment in Common Stock," ("APB 18"). The remaining 165,931 TMBR shares are not restricted from sale within one year. These shares are classified as Available-for-Sale and are reflected in the balance sheet at fair value in accordance with SFAS No. 115. Fair value is determined from publicly quoted market prices as of the balance sheet date. In accordance with SFAS No. 115, unrealized gains and losses recorded as a result of the adjustment to fair value are reflected directly in stockholders' equity. The following table summarizes the Company's unrealized gain on its investment in equity securities as of December 31, 2002 (in thousands, except share amounts): COMMON UNREALIZED SHARES COST GAIN TOTAL --------- ------- ---------- ------- TMBR/Sharp Drilling, Inc. Cost method................................ 892,742 $14,833 $ -- $14,833 Available-for-Sale......................... 165,931 2,826 48 2,874 --------- ------- ---- ------- 1,058,673 $17,659 $ 48 $17,707 ========= ======= ==== ======= 7. ACCRUED EXPENSES Accrued expenses consisted of the following at December 31, 2002 and 2001 (in thousands): 2002 2001 ------- ------- Salaries, wages, payroll taxes and benefits................. $10,573 $13,833 Workers' compensation liability............................ 15,516 10,683 Sales, use and other taxes................................ 2,712 4,758 Insurance, other than workers' compensation................. 2,605 1,777 Restructuring and merger related costs...................... 1,029 2,200 Other.. 3,078 3,257 ------- ------- $35,513 $36,508 ======= ======= F-18 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) The following table summarizes activity in restructuring and merger related accrual accounts for the year ended December 31, 2002 (in thousands): Balance at December 31, 2001................................ $2,200 Severance costs and related expenses........................ (324) Closing of duplicate operational facilities................. (392) Professional fees... (455) ------ Balance at December 31, 2002................................ $1,029 ====== 8. NOTES PAYABLE There were no amounts outstanding under the Company's revolving credit facility at December 31, 2002 or December 31, 2001. The maximum borrowings under this revolving credit facility were increased from $90.0 million to $100.0 million in June 2001 and the term of the facility was also extended to June 2005. A fee of .375% per annum is assessed on the unused facility amount. The amount used for letters of credit decreases the borrowing base of the facility on a dollar-for-dollar basis. The revolving credit facility calls for periodic interest payments at a floating rate ranging from LIBOR plus 1.75% to 2.75%. The applicable rate above LIBOR (1.75% at December 31, 2002) is based upon our trailing twelve-month EBITDA (earnings before interest expense, income taxes and depreciation, depletion and amortization expense). Assets of the Company secure the facility. The facility has restrictions customary in financial instruments of this type including restrictions on certain investments, acquisitions and loans. The facility has no financial covenants unless availability under the facility is less than $20.0 million. The terms of the facility limit the payment of dividends without the prior written consent of the lenders. During 2001, the Company repaid $89.2 million under its existing credit facilities and other term obligations. The Company incurred expenses of $448,000 as a result of prepayment penalties and $942,000 related to deferred financing costs which were unamortized at the time the debt was extinguished. The penalties and deferred financing costs were included in restructuring and related charges in 2001. 9. COMMITMENTS, CONTINGENCIES, AND OTHER MATTERS The Company maintains letters of credit in the aggregate amount of $25.5 million for the benefit of various insurance companies as collateral for retrospective premiums and retained losses which could become payable under the terms of the underlying insurance contracts. These letters of credit expire variously during each calendar year. No amounts have been drawn under the letters of credit. Contingencies -- The Company's contract services and oil and natural gas exploration and production operations are subject to inherent risks, including blowouts, cratering, fire, and explosions which could result in personal injury or death, suspended drilling operations, damage to, or destruction of equipment, damage to producing formations, and pollution or other environmental hazards. As a protection against these hazards, the Company maintains general liability insurance coverage of $2.0 million per occurrence with $4.0 million of aggregate coverage and excess liability and umbrella coverages up to $50.0 million per occurrence and in the aggregate. We maintain a $1 million per occurrence deductible on our general liability insurance coverage and a $750,000 per occurrence deductible on our workers' compensation insurance coverage. These levels of self-insurance expose us to increased operating costs and risks. Net income for the year ended December 31, 2002 includes a charge of $4.7 million related to the financial failure in 2002 of a workers' compensation insurance carrier that had provided coverage for the Company in prior years. F-19 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) The Company believes it is adequately insured for public liability and property damage to others with respect to its operations. However, such insurance may not be sufficient to protect the Company against liability for all consequences of well disasters, extensive fire damage, or damage to the environment. The Company also carries insurance to cover physical damage to, or loss of, its rigs; however, it does not carry insurance against loss of earnings resulting from such damage or loss. The Company's lender who has a security interest in the drilling rigs is named as loss payee on the physical damage insurance on such rigs. Westfort Energy LTD and Westfort Energy (US) LTD f/k/a Canadian Delta, Inc. ("Westfort"), filed a lawsuit against two Patterson-UTI subsidiaries, Patterson Petroleum LP, and Patterson-UTI Drilling Company LP, in the Circuit Court, Rankin County, Mississippi, Case No. 2002-18. The lawsuit relates to a letter agreement entered into in July 2000 between Patterson Petroleum LP and Westfort concerning the drilling of a daywork well in Mississippi. This lawsuit was filed by Westfort after Patterson Petroleum LP made demand on Westfort for payment of the contract drilling services. In this lawsuit, Westfort alleges breach of contract, fraud, and negligence causes of action. Westfort seeks alleged monetary damages, the return of shares of Westfort stock, unspecified damages from alleged lost profits, lost use of income stream, and additional operating expenses, along with alleged punitive damages to be determined by the jury, but not less than 25% of Patterson's net worth. The Company intends to vigorously contest the allegations made by Westfort and asserts claims against Westfort, including for the monies owed Patterson Petroleum LP under the letter agreement in the amount of approximately $5,075,000. The Company believes that it is remote that the outcome of this matter will have a material adverse effect on the Company's financial condition or results of operations. In addition to the Westfort lawsuit, the Company is party to various legal proceedings arising in the normal course of its business. The Company does not believe that the outcome of these proceedings, either individually or in the aggregate, will have a material adverse effect on its financial condition. 10. STOCKHOLDERS' EQUITY During March 2002, the Company issued 650,000 shares of its common stock as consideration for the acquisition of Odin Drilling, Inc. (see Note 2). The common stock was valued at $26.06 per share, its fair market value on the date the terms of the transaction were agreed upon. During December 2001, the Company issued 450,000 shares of its common stock and warrants to acquire an additional 325,000 shares at an exercise price of $26.75 per share, as partial consideration for the acquisition of 17 drilling rigs and related equipment from Cleere Drilling Company. The common stock was recorded at $21.55 per share and the warrants were valued at $8.00 per underlying share of common stock using the Black-Scholes option valuation model (see Note 2). On May 8, 2001, pursuant to the merger between Patterson and UTI, the Company's stockholders approved an amendment to the Company's charter increasing the number of authorized shares of the Company's common stock to 200 million. During January 2001, the Company issued 810,070 shares of its common stock as partial consideration for the acquisition of Jones Drilling Corporation and certain assets owned by its related entities (see Note 2). The common stock was valued at $26.8125 per share, its fair market value on the date of the transaction. During September 2000, the Company issued 3,000,000 shares of its common stock at a public price of $34.50 per share. An underwriting discount of $1.50 was paid for a net price of $33.00 per share. Net proceeds from the offering totaled approximately $98.8 million. During June 2000, the Company issued 1,150,000 shares of its common stock and three-year warrants to acquire an additional 127,000 shares at an exercise price of $22.00 per share, as consideration for certain drilling equipment acquired from High Valley Drilling, Inc. (see Note 2). The common stock was recorded at F-20 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) $18 per share, its fair market value on the date of purchase and the warrants were valued at $900,000 using the Black-Scholes option valuation model. During March 2000, the Company issued 53,000 shares of its common stock as consideration for certain drilling equipment acquired from WEK Drilling Company, Inc. The common stock was recorded at $29.0625 per share, its fair market value on the date of purchase (see Note 2). 11. STOCK OPTIONS AND WARRANTS EMPLOYEE AND NON-EMPLOYEE DIRECTOR STOCK OPTION PLANS -- The Company has seven stock option plans of which three are active. The remaining four plans are dormant and the Company does not intend to grant any further options under such plans. At December 31, 2002, the Company's stock option plans were as follows: OPTIONS OPTIONS AUTHORIZED OPTIONS AVAILABLE PLAN NAME FOR GRANT OUTSTANDING FOR GRANT --------- ---------- ----------- --------- Patterson-UTI Energy, Inc. Amended and Restated 1997 Long-Term Incentive Plan ("1997 Plan")(1)(3)............. 6,000,000 3,881,988 532,536 Patterson-UTI Energy, Inc. 2001 Long-Term Incentive Plan ("2001 Plan")(2)... 1,000,000 957,524 8,733 Amended and Restated Non-Employee Director Stock Option Plan of Patterson-UTI Energy, Inc. ("Non-Employee Director Plan")(1).. 600,000 112,500 345,000 Patterson-UTI Energy, Inc. Non-Employee Directors' Stock Option Plan, as amended ("1995 Non-Employee Director Plan").. 120,000 28,000 -- 1997 Stock Option Plan of DSI Industries, Inc. ("DSI Plan")(1).. -- 5,388 -- Amended and Restated Patterson-UTI Energy, Inc. 1996 Employee Stock Option Plan ("1996 Plan")(1).............. -- 253,300 -- Patterson-UTI Energy, Inc., 1993 Incentive Stock Plan, as amended ("1993 Plan").................................... 2,800,000 876,188 -- -------------- (1) Plan was assumed by the Company as a part of the merger between Patterson and UTI. (2) Plan is for the benefit of employees of the Company, other than officers and directors of the Company. (3) Plan is for the benefit of employees of the Company, including officers and directors of the Company. The Company's active plans are the 1997 Plan, the 2001 Plan and the Non-Employee Director Plan. A summary of each of these plans is set forth below. 1997 PLAN - Administered by the Compensation Committee of the Board of Directors. - All employees including officers and employee directors are eligible for awards. - Vesting schedule is set by the Compensation Committee, however, typically options vest over 3 or 5 years. - The Compensation Committee sets the term of the option except that no Incentive Stock Option ("ISO") can have a term of longer than 10 years. Typically options granted under the plan have a term of 10 years. - The options granted under the plan, unless otherwise stated in the grant thereof, vest upon a change of control as defined in the plan. Options granted to non-executive employees typically do not vest upon a change of control. F-21 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) - All options granted under the plan are granted with an exercise price equal to or greater than the fair market value of the Company's common stock at the time the option is granted. - Although the plan allows for awards of tandem and independent stock appreciation rights, restricted stock and performance awards, no such awards have been granted. - During 2002, the Company increased the options authorized for grant from 3,800,000 to 6,000,000. 2001 PLAN The terms and conditions of the 2001 Plan are identical to the 1997 Plan except as follows: - Officers and directors of the Company are not eligible for grants of options under the 2001 Plan. - No ISO's may be awarded under the 2001 Plan. - Unless the grant states otherwise, options granted under the 2001 Plan do not vest upon a change of control of the Company. NON-EMPLOYEE DIRECTOR PLAN - Administered by the Compensation Committee of the Board of Directors. - All options vest upon the first anniversary of the option grant. - Each director receives options to purchase 15,000 shares upon becoming a director of the Company and options to purchase 7,500 shares on December 31 of each subsequent year in which the director serves as a director of the Company. - The exercise price of the options is the fair market value of the Company's common stock on the date of grant. Of the four dormant plans administered by the Company, two of the plans (the 1993 Plan and the 1995 Non-Employee Director Plan) were plans of the Company prior to the merger of Patterson and UTI and two of the plans (the DSI Plan and the 1996 Plan) were plans of UTI. 1995 NON-EMPLOYEE DIRECTOR PLAN -- Options granted under the 1995 Non-Employee Director Plan vest on the first anniversary of the option grant. 1995 Non-Employee Director Plan options have five year terms. All options were granted with an exercise price equal to the fair market value of the Company's common stock at the time of grant. DSI PLAN -- The options granted under the DSI plan typically vested at a rate of 33% per year with ten year terms. All options were granted with an exercise price equal to the fair market value of the Company's common stock at the time of grant. 1996 PLAN -- The options granted under the 1996 plan vested over one, four and five years as dictated by the Compensation Committee. These options had terms of five and ten years as dictated by the Compensation Committee. All options were granted with a strike price equal to the fair market value of the Company's common stock at the time of grant. 1993 PLAN -- Options granted under the 1993 Plan, typically had terms of 10 years and vested over five years in 20% increments beginning at the end of the first year. These options vest in the event of a change of control as defined in the plan. All options were granted with an exercise price equal to the fair market value of the Company's common stock at the time of grant. ADDITIONAL OPTIONS -- In July 2001, the Compensation Committee granted to each of two non-employee directors of the Company an option to purchase 12,000 shares of the Company's common stock. These options vested on November 6, 2001 and terminate four years later on November 5, 2005. The exercise price of each of the options was $28.625, which was in excess of the fair market value of the Company's common stock on the date of grant. F-22 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) A summary of the status of the Company's stock options issued as of December 31, 2002, 2001, and 2000 and the changes during each of the years then ended are presented below (in thousands, except weighted average exercise price): 2002 2001 2000 -------------------- -------------------- -------------------- NO. OF WEIGHTED NO. OF WEIGHTED NO. OF WEIGHTED SHARES OF AVERAGE SHARES OF AVERAGE SHARES OF AVERAGE UNDERLYING EXERCISE UNDERLYING EXERCISE UNDERLYING EXERCISE OPTIONS PRICE OPTIONS PRICE OPTIONS PRICE ---------- -------- ---------- -------- ---------- -------- Outstanding at beginning of the year............ 6,596 $10.40 5,488 $ 7.57 6,497 $5.72 Granted................ 2,149 26.77 2,103 16.19 586 18.58 ----- ------ ----- ------ ----- ----- Total granted....... 8,745 14.42 7,591 9.96 7,083 6.78 Exercised............. 2,457 6.41 805 5.26 1,563 3.93 Surrendered............ 149 15.32 190 14.39 32 11.42 ----- ------ ----- ------ ----- ----- Outstanding at end of year................... 6,139 $17.61 6,596 $10.40 5,488 $7.57 ===== ====== ===== ====== ===== ===== Exercisable at end of year................... 2,395 $10.88 4,110 $ 7.52 2,672 $6.89 ===== ====== ===== ====== ===== ===== The following table summarizes information about stock options outstanding at December 31, 2002: OPTIONS OUTSTANDING OPTIONS EXERCISABLE --------------------------------------- --------------------- WEIGHTED AVERAGE WEIGHTED REMAINING WEIGHTED AVERAGE NUMBER CONTRACTED AVERAGE NUMBER EXERCISE RANGE OF EXERCISE PRICES OUTSTANDING LIFE EXERCISE PRICE EXERCISABLE PRICES ------------------------ ----------- ---------- ------------- ----------- -------- $3.125 to $5.00............. 1,057,579 6.14 $ 4.55 963,712 $ 4.52 $5.01 to $20.00............. 2,819,809 7.53 $15.18 1,318,800 $14.22 $20.01 to $32.875............ 2,261,500 9.20 $26.74 113,000 $26.25 --------- ---- ------ --------- ------ 6,138,888 7.90 $17.61 2,395,512 $10.88 ========= ==== ====== ========= ====== PUBLIC RELATIONS SERVICES STOCK OPTIONS -- In June 1999, the Company issued options covering a total of 50,000 shares of common stock at an exercise price of $8.0625 per share to a consultant as partial compensation for public relations services rendered to the Company. The options granted to the consultant have an exercise price equal to the fair market value of the stock at date of grant. The options were fully exercisable upon grant date. All such options were exercised in 2000. PRO FORMA STOCK-BASED COMPENSATION DISCLOSURE -- Pro forma information regarding net income and earnings per share, as described in Note 1, has been determined as if the Company had accounted for its employee stock options under the fair value method as defined in that statement. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option valuation model with the following weighted-average assumptions for grants in 1995 through 2002 respectively; dividend yield of 0.00%; risk-free interest rates are different for each grant and range from 3.77% to 7.02%; the expected term is 5 years; and a volatility of 38.68% for all 1995 and 1996 grants, 35.97% for all 1997 grants, 51.08% for all 1998 grants, 61.97% for all 1999 grants, 67.71% for all 2000 grants, 68.33% for all 2001 grants and 63.02% for all 2002 grants. The effects of applying SFAS No. 123

in this pro forma disclosure are not indicative of future amounts. SFAS No. 123 does not apply to awards prior to 1995. STOCK PURCHASE WARRANTS -- In December 2001, the Company issued 325,000 warrants exercisable at $26.75 per share as partial consideration for the purchase of 17 drilling rigs and related equipment from Cleere F-23 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) Drilling Company (see Note 2). The warrants were fully exercisable upon the date of issuance. If not exercised, the warrants will expire on December 21, 2004. In June 2000, the Company issued 127,000 warrants exercisable at $22 per share as partial consideration for the purchase of eight drilling rigs and related equipment from High Valley Drilling, Inc. (see Note 2). The warrants were fully exercisable upon date of issuance. If not exercised, the warrants will expire on June 2, 2003. TABULAR SUMMARY -- The following table summarizes information regarding the Company's stock options and warrants granted under the provisions of the aforementioned plans: as well as stock options and warrants issued pursuant to certain transactions described in Notes 2 and 10: WEIGHTED AVERAGE SHARES EXERCISE PRICE --------- ---------------- GRANTED 2002.. 2,148,500 $26.77 2001.. 2,428,500 17.60 2000.. 713,000 19.19 EXERCISED 2002.. 2,481,486 $ 6.56 2001.. 804,581 5.26 2000.. 1,563,345 3.93 SURRENDERED 2002.. 149,205 $15.32 2001.. 190,473 14.39 2000.. 31,879 11.42 OUTSTANDING AT YEAR END 2002.. 6,566,101 $18.13 2001.. 7,048,292 11.36 2000.. 5,614,846 7.89 EXERCISABLE AT YEAR END 2002.. 2,822,726 $13.11 2001.. 4,562,259 9.29 2000.. 2,799,482 7.58 12. LEASES The Company incurred rent expense, consisting primarily of daily rental charges for the use of drilling equipment, of $5.7 million, $5.9 million, and $8.6 million, for the years 2002, 2001, and 2000, respectively. The Company's obligations under non-cancelable operating lease agreements are not material to the Company's operations. F-24 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) 13. INCOME TAXES Components of the income tax provision applicable for federal, state and foreign income taxes are as follows (in thousands): 2002 2001 2000 -------- -------- ------- Federal income tax expense (benefit): Current.. $(18,064) $ 82,417 $ 6,932 Deferred.. 21,687 10,887 14,705 -------- -------- ------- 3,623 93,304 21,637 State income tax expense (benefit): Current.. (1,811) 4,294 (1) Deferred.. 1,117 661 772 -------- -------- ------- (694) 4,955 771 Foreign income tax expense (benefit): Current.. (2,003) 1,062 -- Deferred.. 744 3,012 470 -------- -------- ------- (1,259) 4,074 470 Total: Current.. $(21,878) $ 87,773 $ 6,931 Deferred.. 23,548 14,560 15,947 -------- -------- ------- Total income tax expense............................ $ 1,670 $102,333 $22,878 ======== ======== ======= The difference between the statutory federal income tax rate and the effective income tax rate is summarized as follows: 2002 2001 2000 ---- ---- ---- Statutory tax rate.. 35.0% 35.0% 35.0% State income taxes.. 2.8 1.9 1.0 Foreign taxes.. -- -- 0.2 Permanent differences...................................... 5.7 1.3 1.4 Other, net.. -- 0.2 .5 ---- ---- ---- Effective tax rate.. 43.5% 38.4% 38.1% ==== ==== ==== In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The Company expects the deferred tax assets at December 31, 2002 to be realized as a result of the reversal during the carryforward period of existing taxable temporary differences giving rise to deferred tax liabilities and the generation of taxable income in the carryforward period; therefore, no valuation allowance is necessary. F-25 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) The tax effect of significant temporary differences representing deferred tax assets and liabilities and changes therein were as follows (in thousands): DECEMBER 31, NET DECEMBER 31, NET DECEMBER 31, NET JANUARY 1, 2002 CHANGE 2001 CHANGE 2000 CHANGE 2000 ------------ -------- ------------ -------- ------------ -------- ---------- Deferred tax assets: Net operating loss carryforwards............. $ -- $ -- $ -- $ (5,850) $ 5,850 $ (5,878) $ 11,728 Investment tax credit carryforwards............. -- -- -- (469) 469 73 396 AMT credit carryforwards....... 602 -- 602 (3,770) 4,372 543 3,829 Other......................... 14,688 6,543 8,145 2,791 5,354 2,215 3,139 --------- -------- -------- -------- -------- -------- -------- 15,290 6,543 8,747 (7,298) 16,045 (3,047) 19,092 Valuation allowance........... -- -- -- -- -- -- -- --------- -------- -------- -------- -------- -------- -------- Deferred tax assets.......... 15,290 6,543 8,747 (7,298) 16,045 (3,047) 19,092 Deferred tax liabilities: Property and equipment basis difference................ (127,006) (34,147) (92,859) (16,005) (76,854) (17,132) (59,722) --------- -------- -------- -------- -------- -------- -------- Net deferred tax liability................ $(111,716) $(27,604) $(84,112) $(23,303) $(60,809) $(20,179) $(40,630) ========= ======== ======== ======== ======== ======== ======== Patterson-UTI's investment tax credit carryforward expired in 2000. Net operating losses were fully utilized in 2001 and the remaining alternative minimum tax credit may be carried forward indefinitely. Significant other deferred tax assets consist primarily of workers' compensation allowance of $7.2 million and bad debt allowance of $3.1 million at December 31, 2002. 14. EMPLOYEE BENEFITS The Company maintains a 401(k) plan for all eligible employees. The Company's operating results include expenses of $2.1 million in 2002 and 2001 and $783,000 in 2000 for the Company's discretionary contributions to the plan. 15. BUSINESS SEGMENTS The Company conducts its business through four distinct operating segments: contract drilling of oil and natural gas wells, drilling and completion fluids services and pressure pumping services to operators in the oil and natural gas industry, and the exploration, development, acquisition and production of oil and natural gas. Each of these segments represents a distinct type of business based upon the type and nature of services and products offered. These segments have separate management teams which report to the Company's chief executive officer and have distinct and identifiable revenues and expenses. CONTRACT DRILLING -- The Company markets its contract drilling services to major and independent oil and natural gas operators. The Company owns 324 drilling rigs, of which 230 operated in 2002. Currently, 262 of the drilling rigs are based in Texas and New Mexico (144 in West Texas and New Mexico, 56 in South Texas, 42 in East Texas, and 20 in North-Central Texas), 41 are based in Oklahoma, five in Utah, and 16 in Western Canada. Our contract drilling operations contributed operating income of $7.6 million in 2002. DRILLING AND COMPLETION FLUIDS -- The Company provides contract drilling and completion fluids services to oil and natural gas operators in West Texas, Southeast New Mexico, South Texas, East Texas, Oklahoma, the Gulf Coast regions of Texas and Louisiana, and the Gulf of Mexico. Drilling and completion fluids are used by oil and natural gas operators during the drilling process to control pressure when drilling oil and natural gas wells. The drilling fluids operations were added by the Company during 1998 with its acquisition of two companies with operations in Texas, New Mexico, Oklahoma, and Colorado. Our services F-26 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) were expanded to include completion fluids in October 2000 with the acquisition of the drilling and completion fluids division of Ambar, Inc., which had operations in the coastal areas of Texas, Louisiana, and in the Gulf of Mexico. Our drilling and completion fluids services operations had an operating loss of $278,000 in 2002. PRESSURE PUMPING -- The Company provides pressure pumping services in the Appalachian Basin. Pressure pumping services consist primarily of well stimulation and cementing for the completion of new wells and remedial work on existing wells. Well stimulation involves processes inside a well designed to enhance the flow of oil, natural gas, or other desired substances from the well. Cementing is the process of inserting material between the hole and the pipe to center and stabilize the pipe in the hole. Our pressure pumping operations contributed operating income of $6.1 million in 2002. OIL AND NATURAL GAS -- The Company is engaged in the development, exploration, acquisition, and production of oil and natural gas. Our oil and natural gas operations contributed operating income of $3.9 million in 2002. The following tables summarize selected financial information relating to our business segments (in thousands): DECEMBER 31, ---------------------------- 2002 2001 2000 -------- -------- -------- Revenues: Contract drilling................................ $410,295 $839,931 $512,998 Drilling and completion fluids.................... 69,943 94,456 32,053 Pressure pumping................................. 32,996 39,600 21,465 Oil and natural gas............................... 14,723 15,988 15,806 -------- -------- -------- Total revenues...................................... $527,957 $989,975 $582,322 ======== ======== ======== Income before income taxes: Contract drilling................................. $ 7,607 $274,514 $ 68,427 Drilling and completion fluids.................... (278) 3,842 (250) Pressure pumping................................. 6,090 12,649 3,302 Oil and natural gas............................... 3,945 756 5,807 -------- -------- -------- 17,364 291,761 77,286 Corporate and other.............................. (9,266) (11,444) (8,701) Merger costs...................................... -- (5,943) -- Restructuring and other charges(a)................ (4,700) (7,202) -- Interest income.................................. 1,110 2,080

1,377 Interest expense................................. (532) (3,142) (10,108) Other... (137) 385 250 -------- -------- -------- Income before income taxes.......................... $ 3,839 $266,495 $ 60,104 ======== ======== ======== -------------- (a) Restructuring and other charges relate to decisions of the executive management group regarding corporate strategy, credit risk, loss contingencies and restructuring activities. Due to the non-operating nature of these decisions, the related charges have been separately presented and excluded from the results of specific segments. These charges primarily related to the contract drilling segment. F-27 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) DECEMBER 31, ----------------------------- 2002 2001 2000 -------- -------- -------- Identifiable assets: Contract drilling................................ $694,020 $681,700 $571,498 Drilling and completion fluids.................... 34,687 41,724 52,414 Pressure pumping................................. 35,084 29,473 16,114 Oil and natural gas............................... 20,854 15,398 21,232 Corporate and other (a)........................... 157,864 101,347 78,640 -------- -------- -------- Total assets.. $942,509 $869,642 $739,898 ======== ======== ======== Depreciation, depletion and amortization: Contract drilling................................ $ 80,500 $ 72,797 $ 54,274 Drilling and completion fluids.................... 2,216 2,644 1,464 Pressure pumping................................. 2,803 1,895 1,564 Oil and natural gas............................... 5,251 8,505 3,673 Corporate and other............................... 446 318 489 -------- -------- -------- Total depreciation, depletion and amortization....... $ 91,216 $ 86,159 $ 61,464 ======== ======== ======== Capital expenditures: Contract drilling................................ $ 64,821 $150,788 $116,836 Drilling and completion fluids.................... 1,571 4,937 10,166 Pressure pumping................................. 7,399 7,756 4,426 Oil and natural gas............................... 6,357 7,956 5,341 Corporate and other............................... 3,695 5,320 -- -------- -------- -------- Total capital expenditures.......................... $ 83,843 $176,757 $136,769 ======== ======== ======== -------------- (a) Corporate assets primarily include cash on hand managed by the parent corporation and certain deferred federal income tax assets. F-28 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) Quarterly financial information for the years ended December 31, 2002 and 2001 is as follows (in thousands): 1ST QUARTER 2ND QUARTER 3RD QUARTER 4TH QUARTER TOTAL ----------- ----------- ----------- ----------- -------- 2002 Operating revenues............ $128,223 $125,363 $133,495 $140,876 $527,957 Operating income (loss)..... 6,428 (6,591) 683 2,878 3,398 Net income (loss)........... 3,935 (3,845) 249 1,830 2,169 Earnings (loss) per share: Basic.................... $ 0.05 $ (0.05) $ 0.00 $ 0.02 $ 0.03 Diluted................. $ 0.05 $ (0.05) $ 0.00 $ 0.02 $ 0.03 2001 Operating revenues.......... $238,586 $287,564 $289,104 $174,721 $989,975 Operating income............ 59,160 79,249 98,872 29,891 267,172 Net income................. 36,611 48,466 60,382 18,703 164,162 Earnings per share: Basic.................... $ 0.48 $ 0.63 $ 0.79 $ 0.24 $ 2.15 Diluted................. $ 0.46 $ 0.61 $ 0.77 $ 0.24 $ 2.07 17. CONCENTRATIONS OF CREDIT RISK Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of demand deposits, temporary cash investments, and trade receivables. The Company believes that it places its demand deposits and temporary cash investments with high credit quality financial institutions. At December 31, 2002 and 2001, the Company's demand deposits and temporary cash investments consisted of the following (in thousands): 2002 2001 -------- -------- Deposit in FDIC and SIPC-insured institutions under $100,000.. $ 1,711 $ 5,416 Deposit in FDIC and SIPC-insured institutions over $100,000.. 90,464 39,057 -------- -------- 92,175 44,473 Less outstanding checks and other reconciling items......... (10,021) (10,889) -------- -------- Cash and cash equivalents................................. $ 82,154 $ 33,584 ======== ======== Concentrations of credit risk with respect to trade receivables are primarily focused on companies involved in the exploration and development of oil and natural gas properties. The concentration is somewhat mitigated by the diversification of customers for which the Company provides drilling services. As is general industry practice, the Company generally does not require customers to provide collateral. No significant losses from individual contracts were experienced during the years ended December 31, 2002, 2001, or 2000. We recognized bad debt expense for 2002, 2001, and 2000 of $320,000, $2.0 million, and $570,000, respectively. The carrying values of cash and cash equivalents, marketable securities, and trade receivables approximate fair value due to the short-term maturity of these assets. F-29 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) 18. RELATED PARTY TRANSACTIONS USE OF ASSETS -- In 2001 and 2000, we leased a 1981 Beech King-Air 90 airplane owned by SSI Oil and Gas, Inc., an entity beneficially owned 50% by Cloyce A. Talbott, Patterson-UTI's Chief Executive Officer, and directly owned 50% by A. Glenn Patterson, Patterson-UTI's President/Chief Operating Officer. Under the terms of the lease, we paid a monthly rental of $9,200, the costs of fuel, insurance, taxes and maintenance of the aircraft. Such amounts totaled approximately $212,000 and $194,000 for 2001 and 2000, respectively. JOINT OPERATION OF OIL AND NATURAL GAS PROPERTIES -- The Company operates certain oil and natural gas properties in which certain of our affiliated persons have participated, either individually or through entities they control, in the prospects or properties in which we have an interest. These participations, which have been on a working interest basis, have been in prospects or properties originated or acquired by Patterson-UTI. At December 31, 2002, affiliated persons were working interest owners in 215 of the 256 wells then being operated by Patterson-UTI. Sales of working interests are made by Patterson-UTI to reduce its economic risk in the properties. Generally, it is more efficient for Patterson-UTI to sell the working interests to these affiliated persons than to market them to unrelated third parties. Sales were made by Patterson-UTI at its cost, comprised of Patterson-UTI's costs of acquiring and preparing the working interests for sale. These costs were paid by the working interest owners on a pro rata basis based upon their working interest ownership percentage. The price at which working interests were sold to affiliated persons was the same price at which working interests were sold to unaffiliated persons. The Company made oil and natural gas production payments (net of royalty) of $6.9 million, $8.3 million, and $13.4 million from these properties in 2002, 2001, and 2000, respectively, to the aforementioned persons or entities. These persons or entities reimbursed the Company for joint operating costs of $5.5 million, $5.9 million, and $8.0 million in 2002, 2001, and 2000, respectively. OTHER -- In 2002 and 2001, we paid approximately $279,000 and $387,000, respectively, to TMP Truck and Trailer LP ("TMP"), and entity owned by Thomas M. Patterson (son of A. Glenn Patterson), for certain equipment and metal fabrication services. Purchases from TMP were at then current market prices. 19. SUBSEQUENT EVENT Subsequent to December 31, 2002, the Company purchased seven drilling rigs in two separate transactions, for an aggregate purchase price of $16.5 million in cash. The acquisitions were funded out of the Company's existing cash. 20. SUPPLEMENTARY OIL AND NATURAL GAS RESERVE INFORMATION AND RELATED DATA (UNAUDITED) OIL AND GAS EXPENDITURES AND CAPITALIZED COSTS Gross oil and natural gas expenditures by the Company for the years ended December 31, 2002, 2001 and 2000 are summarized below (in thousands): 2002 2001 2000 ------ ------- ------ Property acquisition costs.............................. $ 905 $ 3,813 $ 798 Exploration costs....................................... 6,267 6,788 5,401 Development costs....................................... 845 1,354 1,012 ------ ------- ------ $8,017 $11,955 $7,211 ====== ======= ====== F-30 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) 20. SUPPLEMENTARY OIL AND NATURAL GAS RESERVE INFORMATION AND RELATED DATA (UNAUDITED) -- (CONTINUED) The aggregate amount of capitalized costs of oil and natural gas properties as of December 31, 2002, 2001 and 2000 are comprised of the following (in thousands): 2002 2001 2000 -------- -------- -------- Proved properties.................................. $ 44,849 $ 43,500 $ 37,709 Accumulated depreciation and depletion.............. (35,684) (35,828) (28,338) -------- -------- -------- $ 9,165 $ 7,672 $ 9,371 ======== ======== ======== RESULTS OF OPERATIONS FOR OIL AND NATURAL GAS PRODUCING ACTIVITIES: Oil and natural gas sales........................... $ 12,738 $ 13,842 $ 13,619 Gain on sale of oil and natural gas properties...... 303 213 4 -------- -------- -------- 13,041 14,055 13,623 -------- -------- -------- Costs and expenses: Lease operating and production costs................ 3,068 3,978 3,245 Exploration costs including dry holes and abandonments.................................... 785 1,038 1,627 Depreciation and depletion......................... 4,633 6,317 3,601 Impairment of oil and natural gas properties........ 727 1,100 -- -------- -------- -------- 9,213 12,433 8,473 -------- -------- -------- Results of operations for oil and natural gas producing activities, before taxes................ $ 3,828 $ 1,622 $ 5,150 ======== ======== ======== OIL AND NATURAL GAS RESERVE QUANTITIES: The following table sets forth information with respect to quantities of net proved developed oil and natural gas reserves and changes in those reserves for the years ended December 31, 2002, 2001, and 2000 (in F-31 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) 20. SUPPLEMENTARY OIL AND NATURAL GAS RESERVE INFORMATION AND RELATED DATA (UNAUDITED) -- (CONTINUED) thousands). The quantities were estimated by an independent petroleum engineer. The Company's proved developed oil and natural gas reserves are located entirely within the United States. OIL (BBLS) GAS (MCF) ---------- --------- Estimated quantity, January 1, 2000........................ 1,209 4,118 Revision in previous estimates............................. 61 (157) Extensions, discoveries and other additions................ 134 1,303 Production... (275) (1,384) ------ ------- Estimated quantity, January 1, 2001........................ 1,129 3,880 Revision in previous estimates............................. 16 609 Extensions, discoveries and other additions................ 175 1,862 Sales of reserves.. (1) --

Production.. (272) (1,717) ------ ------- Estimated quantity, January 1, 2002......................... 1,047 4,634 Revision in previous estimates............................. 145 2,103 Extensions, discoveries and other additions................ 331 1,420 Sales of reserves.. (12) (110) Production... (284) (1,807) ------ ------- Estimated quantity, January 1, 2003......................... 1,227 6,240 ====== ======= Estimates of our proved reserves and future net revenues are determined based on various assumptions such as oil and natural gas prices, operating costs, reservoir performance, and economic conditions. The oil and natural gas prices and operating cost assumptions were based on the actual prices and costs in effect as of the date of such estimates. These assumptions are held constant throughout the life of the properties, except operating costs are adjusted for contractual escalations. Our reserve engineer estimates the assumptions relating to reservoir performance and economic conditions using information available and industry experience. The oil and natural gas prices used to value our reserves as of December 31, 2002 were $31.20 per Bbl of oil and $4.789 per Mcf of natural gas. Estimates of reserves and production performance are subjective and may change materially as actual production information becomes available. F-32 PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) 20. SUPPLEMENTARY OIL AND NATURAL GAS RESERVE INFORMATION AND RELATED DATA (UNAUDITED) -- (CONTINUED) STANDARDIZED MEASURE OF FUTURE NET CASH FLOWS OF PROVED DEVELOPED OIL AND NATURAL GAS RESERVES, DISCOUNTED AT 10% PER ANNUM (IN THOUSANDS): YEAR ENDED DECEMBER 31, -------------------------- 2002 2001 2000 ------- ------- ------- Future gross revenues.................................. $68,165 $32,674 $48,161 Future development and production costs................ (22,149) (13,077) (16,270) Future income tax expense (a).......................... (15,964) (5,110) (8,617) ------- ------- ------- Future net cash flows.................................. 30,052 14,487 23,274 Discount at 10% per annum.............................. (8,952) (3,773) (6,634) ------- ------- ------- Standardized measure of discounted future net cash flows.. $21,100 $10,714 $16,640 ======= ======= ======= --------------- (a) Future income taxes are computed by applying the statutory tax rate to future net cash flows less the tax basis of the properties and net operating loss attributable to oil and gas operations and investment tax credit carryforwards as of year-end; statutory depletion and tax credits applicable to future oil and gas-producing activities are also considered in the income tax computation. CHANGES IN THE STANDARDIZED MEASURE OF NET CASH FLOWS OF PROVED DEVELOPED OIL AND GAS RESERVES DISCOUNTED AT 10% PER ANNUM (IN THOUSANDS): YEAR ENDED DECEMBER 31, -------------------------- 2002 2001 2000 ------- ------- ------- Standardized measure at beginning of year............... $10,714 $16,640 $12,082 Sales and transfers of oil and gas produced, net of production costs..................................... (8,342) (8,684) (7,982) Net changes in sales price and future production and development costs.................................... 4,888 (10,670) 5,819 Extensions, discoveries and improved recovery, less related costs.. 6,017 2,870 4,064 Sales of minerals-in-place............................. (30) (1) -- Revision of previous quantity estimates................ 4,315 (2,824) 1,255 Accretion of discount.................................. 1,531 2,440 1,873 Other.. (9,358) 13,588 (2,435) Net change in income taxes............................. 11,365 (2,645) 1,964 ------- ------- ------- Standardized measure at end of year..................... $21,100 $10,714 $16,640 ======= ======= ======= F-33 PATTERSON-UTI ENERGY, INC. SCHEDULE II-VALUATION AND QUALIFYING ACCOUNTS (IN THOUSANDS) ADDITIONS(1) ----------------------- CHARGED TO ACQUIRED BEGINNING COSTS AND THROUGH ENDING DESCRIPTION BALANCE EXPENSES ACQUISITION DEDUCTIONS(2) BALANCE ----------- --------- ---------- ----------- ------------ ------- YEAR ENDED DECEMBER 31, 2002 Deducted from asset accounts: Allowance for doubtful accounts....... $4,021 $ 320 $ -- $1,197 $3,144 YEAR ENDED DECEMBER 31, 2001 Deducted from asset accounts: Allowance for doubtful accounts....... $3,462 $2,045 $ -- $1,486 $4,021 YEAR ENDED DECEMBER 31, 2000 Deducted from asset accounts: Allowance for doubtful accounts....... $3,508 $ 570 $800 $1,416 $3,462 --------------- (1) Net of recoveries. (2) Uncollectible accounts written off. S-1 SIGNATURES Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Patterson-UTI Energy, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. PATTERSON-UTI ENERGY, INC. Date: December 30, 2003 By: /s/ CLOYCE A. TALBOTT --- Cloyce A. Talbott Chief Executive Officer EXHIBIT INDEX EXHIBIT NUMBER DESCRIPTION ------- ----------- 2.1 Agreement and Plan of Merger dated March 10, 2002 among Patterson-UTI Energy, Inc., Patterson-UTI Drilling Company LP, LLLP and Odin Drilling, Inc.(1) 2.2 Stock Purchase Agreement dated as of June 11, 2002 by and among Patterson-UTI Energy, Inc. and Roper Family

Properties, Ltd., Estate of Joe G. Roper, Patricia R. Elledge, Judy Kathleen Roper Davis, Jeanie Elisabeth Cornelius and J. Mark Roper.(2) 2.3 Stock Purchase Agreement dated as of October 28, 2002 by and between Patterson-UTI Energy, Inc. and J. Mark Roper.(3) 3.1 Restated Certificate of Incorporation, as amended.(4) 3.2 Amended and Restated Bylaws.(5) 4.1 Rights Agreement dated January 2, 1997, between Patterson Energy, Inc. and Continental Stock Transfer & Trust Company.(6) 4.2 Amendment to Rights Agreement dated as of October 23, 2001.(7) 4.3 Restated Certificate of Incorporation, as amended (See Exhibit 3.1) 4.4 Registration Rights Agreement with Bear, Stearns and Co. Inc., dated March 25, 1994, as assigned by REMY Capital Partners III, L.P.(5) 4.5 Patterson-UTI Energy, Inc. 1993 Stock Incentive Plan, as amended.(8)* 4.6 Patterson-UTI Energy, Inc. Non-Employee Directors' Stock Option Plan, as amended.(9)* 4.7 Patterson-UTI Energy, Inc. Amended and Restated 1997 Long-Term Incentive Plan.(4)* 4.8 Amended and Restated Patterson-UTI Energy, Inc. Non-Employee Director Stock Option Plan(4)* 4.9 Amended and Restated Patterson-UTI Energy, Inc. 1996 Employee Stock Option Plan.(10)* 4.10 1997 Stock Option Plan of DSI Industries, Inc.(11)* 4.11 Stock Option Agreement dated July 20, 2001 between Patterson-UTI Energy, Inc. and Kenneth R. Peak (a non-employee director of Patterson-UTI Energy, Inc.).(5)* 10.1 For additional material contracts, see Exhibits 4.1, 4.2 and 4.4 through 4.11. 10.2 Amended and Restated Loan and Security Agreement, dated July 26, 2002.(12) 10.3 Revolving Loan Promissory Note, dated July 26, 2002.(12) 10.4 Amended and Restated Guaranty Agreement, dated July 26, 2002.(12) 10.5 Amended and Restated Pledge Agreement, dated July 26, 2002.(12) 10.6 Model Form Operating Agreement.(13) 10.7 Form of Drilling Bid Proposal and Footage Drilling Contract.(13) 10.8 Form of Turnkey Drilling Agreement.(13) 21.1 Subsidiaries of the Registrant.(14) 23.1 Consent of Independent Auditors -- PricewaterhouseCoopers LLP. 23.2 Consent of Independent Auditors -- Ernst & Young LLP. 23.3 Consent of Independent Petroleum Engineer -- M. Brian Wallace, P.E. 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended. 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended. 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. --------------- (1) Incorporated herein by reference to Item 6, "Exhibits and Reports on Form 8-K" to Form 10-Q for the quarterly period ended March 31, 2002. (2) Incorporated herein by reference to Item 7, "Material to be Filed as Exhibits" to Amendment No. 1 to Schedule 13D filed on October 31, 2002. (3) Incorporated herein by reference to Item 6, "Exhibits and Reports on Form 8-K" to Form 10-Q for the quarterly period ended June 30, 2002. (4) Incorporated herein by reference to Item 6, "Exhibits and Reports on Form 8-K" to Form 10-Q for the quarterly period ended June 30, 2003. (5) Incorporated herein by reference to Item 14, "Exhibits, Financial Statement Schedules and Reports on Form 8-K" to Annual Report on Form 10-K for the fiscal year ended December 31, 2001. (6) Incorporated by reference to Item 2, "Exhibits" to Registration Statement on Form 8-A filed on January 14, 1997. (7) Incorporated herein by reference to Item 6, "Exhibits and Reports on Form 8-K" to Form 10-Q for the quarterly period ended September 30, 2001, filed on October 31, 2001. (8) Incorporated herein by reference to Item 8, "Exhibits" to Registration Statement on Form S-8 (File No. 333-39471) filed on March 13, 1998. (9) Incorporated herein by reference to Item 8, "Exhibits" to Registration Statement on Form S-8 (File No. 333-39471) filed on November 4, 1997. (10) Incorporated herein by reference to Item 8, "Exhibits" to Post-Effective Amendment No. 1 to Registration Statement on Form S-8 (file No. 333-60466) filed on July 25, 2001. (11) Incorporated herein by reference to Item 8, "Exhibits" to Post-Effective Amendment No. 1 to Registration Statement on Form S-8 (file No. 333-60470) filed on July 25, 2001. (12) Incorporated herein by reference to Item 6, "Exhibits and Reports on Form 8-K" to Form 10-Q for the quarterly period ended June 30, 2001, filed on August 1, 2001. (13) Incorporated herein by reference to Item 27, "Exhibits" to Registration Statement on Form SB-2 (File No. 33-68058-FW) filed on August 30, 1993. (14) Incorporated herein by reference to Item 15, "Exhibits, Financial Statement Schedules and Reports on Form 8-K" to Annual Report on Form 10-K for the fiscal year ended December 31, 2002. * Management Contract or Compensatory Plan identified as required by Item 15(a)(3) of Form 10-K.